



Global RMB Handbook

For Financial Institutions

J.P.Morgan

Foreword

J.P. Morgan has been a leading player in the RMB internationalization process, working closely with regulators and helping our clients to navigate the complexities of adopting emerging currencies. As the world's largest clearer of USD by clearing value, we manage 20% of the world's USD flows globally every day. Our invaluable experience with global clearing especially USD and EUR and proven track record in global markets put J.P. Morgan in a unique position when navigating and facilitating the changing RMB landscape.

This Handbook aims to provide our financial institution customers with an insight into the current and potential opportunities that exist in RMB. This is part of our overall objective to help you develop your strategy for the currency and to expand the scope of services you are able to provide to your customers.

China has made it clear that it is one of their strategic priorities to liberalize financial regulations in order to achieve RMB internationalization. Although there is significant evidence of this, its domestic markets still lag behind international financial centers in market depth, breadth and openness. This will change as China recognizes that its future role in global finance depends on the pace of domestic financial liberalization, full currency convertibility, and a move toward floating interest rates. The globalization of Chinese corporations, including state-owned enterprises, financial institutions and NBFIs marks a second wave of Chinese outward investment and is likely to fuel this liberalization process as Chinese companies seek to maximize their competitiveness globally.



The expansion of the cross-border trade settlement in CNY (onshore RMB) has been a critical enabler of this process, with substantial growth in cross-border RMB volumes since 2010. The CNH market, i.e. the deliverable CNY market offshore, has proved the most visible result of the success of RMB internationalization, with rapid growth in the development of CNH products and global RMB centers alongside Hong Kong. Capital account flows such as RQFII and FDI are also being opened up allowing for RMB to be circulated back to the mainland.

As RMB internationalization continues to build momentum, there are increasing revenue opportunities for financial institutions to capture new commercial market share while enhancing treasury management practices through the creation of RMB denominated investment and foreign exchange products.

The move towards RMB internationalization has no reverse gear. It is important that financial institutions remain up to date with ongoing developments and seize opportunities as they arise and position themselves to provide a superior service to their customers.

We would like to speak with you on your RMB needs and our RMB experts will be pleased to share their experiences and help you to create and deliver a competitive, forward-looking customer strategy and solution set.

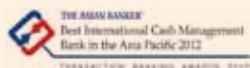
A handwritten signature in black ink that reads "Thomas DuCharme". The signature is fluid and cursive, with the first name and last name clearly distinguishable.

Thomas DuCharme
Chief Executive Officer, Treasury and Securities Services, Asia Pacific
J.P. Morgan

Recognition from our industry

J.P. Morgan enjoys a track record that is recognized by the market. The bank is pleased to have received numerous awards, including those listed below.

Recent Awards



- Best Cash Management Bank, Asia Pacific
- Best Payments Bank, Asia Pacific
- Achievement Award for US Dollar Clearing, Asia Pacific, 2010-2012

The Asian Banker 2012



- Asset Manager of the Year
- Institutional Product/Strategy of the Year

Asian Investor, Investment Performance Awards 2012



- Best Asset Service Provider, 2010-2011
- Best Global Custodian

Asian Investor Service Provider Awards 2011



- Best M&A House—China
- Best Debt House—Australia
- Best Equity House—Korea
- Best Investment Bank—Philippines

Euromoney 2011



- Best in Working Capital & Trade Finance –North Asia
- Best Specialist Bank for Liquidity Solutions in Asia, 2004-2012
- Best Specialist Bank for FIs (Banks) in Asia, 2005-2012
- Best FI Bank—China, Japan, Korea, Pakistan, Singapore & Vietnam
- Best MNC/Large Corporate Bank – Japan & International, China
- Best in Securities & Fund Services, 2010-2012
- Best in Collateral Management
- Best Tri-Party Services Provider, 2010-2012
- Best in Transition Management
- Best Sub-Custodian, Taiwan, 2010-2012

The Asset 2012



- Best Foreign Investment Bank –Hong Kong, 2005-2011
- Best Equity House—China
- Best Equity House—Korea
- Best Equity House—Taiwan, 2010-2011
- Best Asset Management Company of the Year, Hong Kong

The Asset 2011



Best Equity - Linked House
Finance Asia 2011



Outstanding Risk Management Company
Golden Goblet Award 2011



- Equity-Linked House, Asia, 2010-2011
- Australia/New Zealand Bond House, 2010-2011

International Financing Review Asia 2011

Institutional Investor

All-Asia Research Team—overall second place

Institutional Investor, 2012



Best Money Market Fund Asia, 2008-2011

Treasury Management International 2011

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One currency two markets

The rapid expansion of RMB trade settlement and issuance of RMB-denominated bonds by both the Chinese government and corporates in mainland China and Hong Kong have created important new liquidity channels and market depth in the onshore (CNY) and offshore (CNH) RMB markets.

This in turn is encouraging financial institutions and their clients to seek new financing, investment and risk management opportunities in the CNY and CNH, and enables financial institutions to support their clients' business requirements in and beyond China.

These markets remain separate, with distinct regulatory landscapes and product offerings. However, as figure 1 depicts, there are opportunities to convert onshore CNY into offshore CNH through a variety of routes that have been opened up through the RMB internationalization process.

This section of the Handbook provides information on both the onshore and offshore markets to help financial institutions to understand the mechanics and trends in RMB and to help determine both internal and customer strategies, looking specifically at:

- Regulations
- Indicative market statistics
- Foreign Exchange rate curves
- Clearing infrastructure, including a comparison with established USD clearing systems

An overview of the milestones in the journey towards RMB internationalization can be found in Appendix I.

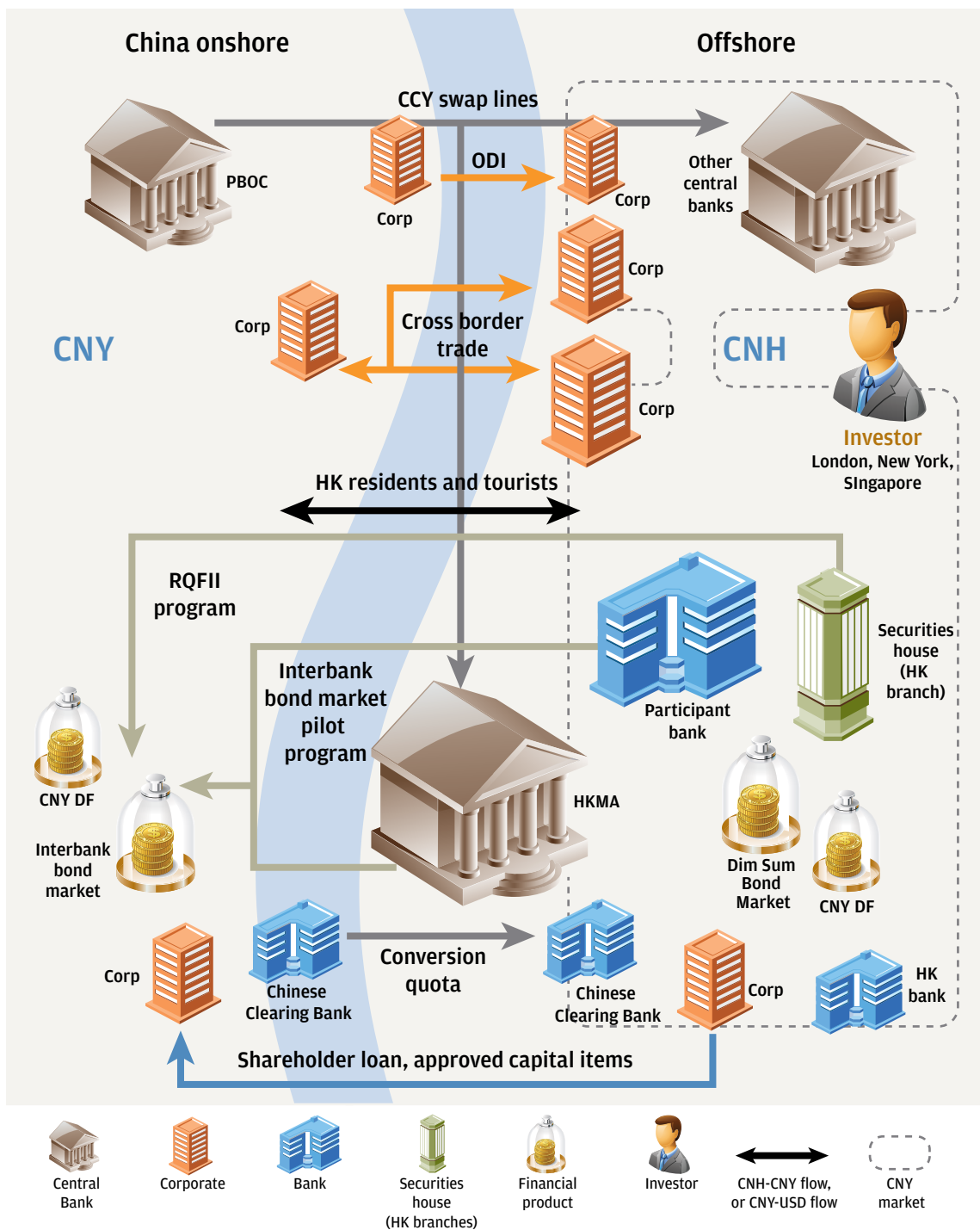


Figure 1. Converting onshore CNY into offshore CNH
Source : J.P. Morgan

Navigating the onshore RMB market

China has made it clear that one of the strategic priorities is to liberalize financial regulations in order to achieve RMB internationalization.

Onshore financial markets

The onshore RMB market remains highly regulated and cross-border flows are subject to stringent capital controls. Interest rates on loans and deposits are regulated by People's Bank of China (PBOC) within certain parameters. Non-resident institutions and individuals are not permitted to invest in RMB-denominated securities except through the Qualified Foreign Institutional Investor (QFII), RMB Qualified Foreign Institutional Investor (RQFII) schemes or the interbank bond quota. Mainland investors can use RMB to invest in overseas markets via Qualified Domestic Institutional Investor (QDII) products. The Shanghai Inter-bank Offered Rate (SHIBOR) was launched in January 2007 as part of PBOC's efforts to develop an official interbank interest rate benchmark for China's money market. SHIBOR acts as a daily reference rate based on the interest rates at which banks offer to lend unsecured funds to other banks in the Shanghai interbank money market, of which J.P. Morgan is a participant.

Complex financial instruments, such as derivatives or intricate financing structures, have remained highly regulated for all market participants, and the regulatory authorities have been keen to maintain close control of market activities. The ability for corporations and banks to borrow overseas has been limited by the authorities' need to balance the country's foreign debt and prevent foreign currency speculation. Chinese institutions intending to settle outward direct investment in RMB must obtain approval from the relevant authorities for both the transaction and offshore remittance of the funds, and may then repatriate the proceeds of the outbound investment back into China.

All transactions involving foreign exchange are strictly controlled by the State Administration of Foreign Exchange (SAFE).

Overseas financial institution market participation

i Qualified foreign institutional investor (QFII) scheme

Since 2001, China has had a qualified foreign institutional investors (QFII) scheme in place. Applicants for QFII are divided into various categories: fund managers, insurance companies, securities firms, banks and other institutional investors (for example - pension funds, charity funds, sovereign wealth investment companies).

Depending on their category, applicants must have a certain track record (e.g. 2 years for fund managers and insurance companies, 5 years for securities companies, 10 years for banks) and a certain amount of securities assets under management (US\$0.5 billion for fund managers

China remains committed to its policy of opening up the financial markets and its future role in global finance depends on the pace of domestic financial liberalization, full currency convertibility, and a move toward floating interest rates.

and insurance companies, US\$5 billion for securities companies and banks) outside of China. Each QFII is awarded an investment quota and the QFII rules are designed to restrict access to only a handful of foreign institutions. The permissible investment scope of QFIIs includes exchange traded stocks, bonds, and warrants; fixed-income products in the inter-bank bond market; securities investment funds; and stock index futures.

Since late 2010, some foreign financial institutions, mainly central banks and overseas banks that facilitate the RMB cross-border settlement scheme have been given quotas to trade in the domestic liquid interbank CNY bond market. The key difference between these banks and QFII-qualified investors is that these banks already hold RMB for trade settlement purposes (or through currency swaps in the case of the central banks), whereas the QFII-qualified investors hold USD and therefore need to go through a currency conversion process first.

Under the current Chinese tax regulation, in general tax on interest income is exempted for government bonds, but other interest income, dividends and capital gains as derived by non-Chinese resident from China are not tax exempted. The actual tax policy on the above RMB investment for foreign investors has not been clarified by the Chinese tax authority. Investors should consult their tax professionals and legal counsel as appropriate to determine their specific tax position.

ii Renminbi qualified foreign institutional investor (RQFII) scheme

RQFII is a new policy initiative which allows qualified RQFII holders to channel RMB raised in Hong Kong to invest into the mainland securities markets. RQFII holders may issue public or private funds or other investment products using their RQFII quotas.

RQFII is granted to Hong Kong subsidiaries of qualified mainland asset management and securities firms, which allows them to channel RMB raised in Hong Kong to invest in the mainland securities markets.

RQFII funds give retail investors access to invest in the mainland securities markets as they can invest RMB directly in the mainland bond and equity markets (including the inter-bank bond and exchange-traded bond market) through the RQFII quotas.

CNY foreign exchange

i Designated foreign exchange banks

The Chinese interbank currency market operates on the National Foreign Exchange Trading Center (NFETC). The China Foreign Exchange Trade System (CFETS) electronically links its primary users, which are known as Designated Foreign Exchange Banks (DFEBs). DFEBs can also trade directly with other member banks in the CNY FX spot market, as opposed to trading only with CFETS. Foreign companies cannot buy foreign exchange directly from the interbank market, but must go through the DFEBs. Since March 2012, SAFE has allowed onshore banks to keep a small limit of overnight short USD/CNY exposures, the amount of which varies across banks.

ii OTC trading

Over-the-counter (OTC) trading and market-making mechanisms in the interbank FX market were first established in 2006, while also retaining

CNY Market			
Chinese yuan (CNY)			
Market	Daily volume	Transaction size	Bid-Offer spread
Foreign Exchange			
Spot market	US\$15bn	US\$10-15mn	3-7pips
Onshore forward/swap	US\$10bn	US\$10mn	5-10pips
NDF	US\$4-5bn	US\$10mn	see note 1
FX Options	US\$30-50mn	US\$5mn-10mn	1vega
Interest Rate Swap Market			
	CNY1-2bn	CNY100-200mn	3-7bp
NDIRS	US\$300-400mn	US\$10-15mn	3-7bp
NDS	US\$50-80mn	US\$5-10mn	10-20bp
Government Bond Market			
PBOC Bills	CNY100bn	CNY100-200mn	5bp
CGB - interbank	CNY30bn	CNY50-100mn	2-5bp
1. The bid-offer spread for CNY NDF depends on tenor and size. e.g. It is 30 pips for short dates up to 2-month and transaction size up to USD15 million. However, for 12-month and USD100 million, it can be as wide as 50 pips.			

Figure 2. Daily volumes in CNY FX transactions

Source: J.P. Morgan

Conditions for overseas financial institutions

Overseas financial institutions conducting FX in China need to satisfy the following conditions (as of June 2011) to ensure that FX is conducted only to support cross-border trade settlement:

1 Conduct CNY FX only with onshore agent banks for trade settlement with Chinese companies as payer or payee.

2 Shall not perform CNY FX for their corporate clients that do not have a direct trade relationship with Chinese counterparties;

3 Buy/sell CNY to support trade transactions within a 3 month period on the back of trade settlement needs;

4 Must ensure that corporate clients conduct CNY FX and trade payments with the same overseas financial institution;

5 Should trace the fund flows after executing CNY FX and closely monitor FX transactions of new clients or with large amounts.

automatic price-matching based transactions. The way that central parity of the RMB against the USD was also changed, such that the USD/CNY central rate is determined by market makers before the market opens each day. Since then, the original $\pm 0.3\%$ band within which CNY/USD inter-bank FX spot rates can fluctuate around the daily fixing was widened to $\pm 0.5\%$ in 2007, and again in 2012 to $\pm 0.5\%$ to $\pm 1\%$, creating more two-way volatility. The quotations of market makers are averaged to obtain the PBOC fixing.

As of September 2012, spot USD/CNY and fixing rates have recently re-converged (figure 3), triggering some profit-taking in long CNY NDF outright and point positions. This convergence is primarily policy-driven, and the exchange rate regime may be evolving at a faster pace than expected by the market participants. If the PBOC's FX policy aims to re-close the gap between the spot and fixing rates, the result will be an essentially stable RMB position. In this instance, there would be limited further upside in offshore RMB points.

If the spot rate is allowed to trade more freely within the $\pm 1\%$ band, there is a possibility of a permanent functional separation between a market-driven spot rate and the daily fixings. In such an event, the NDF market would become a less reliable hedging tool unless it is migrated to a new reference fix that followed the actual spot more closely.

In the event of the FX regime evolving to more two-way variability rather than the current near-term appreciation bias, the short USD hedge unwinding volumes are likely to increase.

Spot USD/CNY and fixing meet halfway

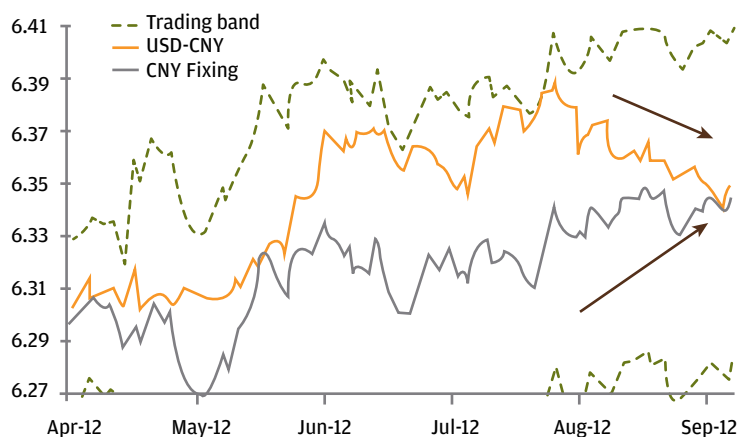


Figure 3. Spot USD/ CNY and fixing rates

Bilateral currency swap agreements

Since 2008, central banks worldwide have signed up for swap lines with PBOC, with each line covering a three- year period. To date, Hong Kong has the largest swap line amounting to CNY400 billion (USD63 billion equivalent). The exchange of swap lines is primarily for the purpose of promoting bilateral financial cooperation, facilitating bilateral trade and investment, and safeguarding regional financial stability. Figure 4 below illustrates the timeline of bilateral swap lines exchanged and amounts established by each central bank.

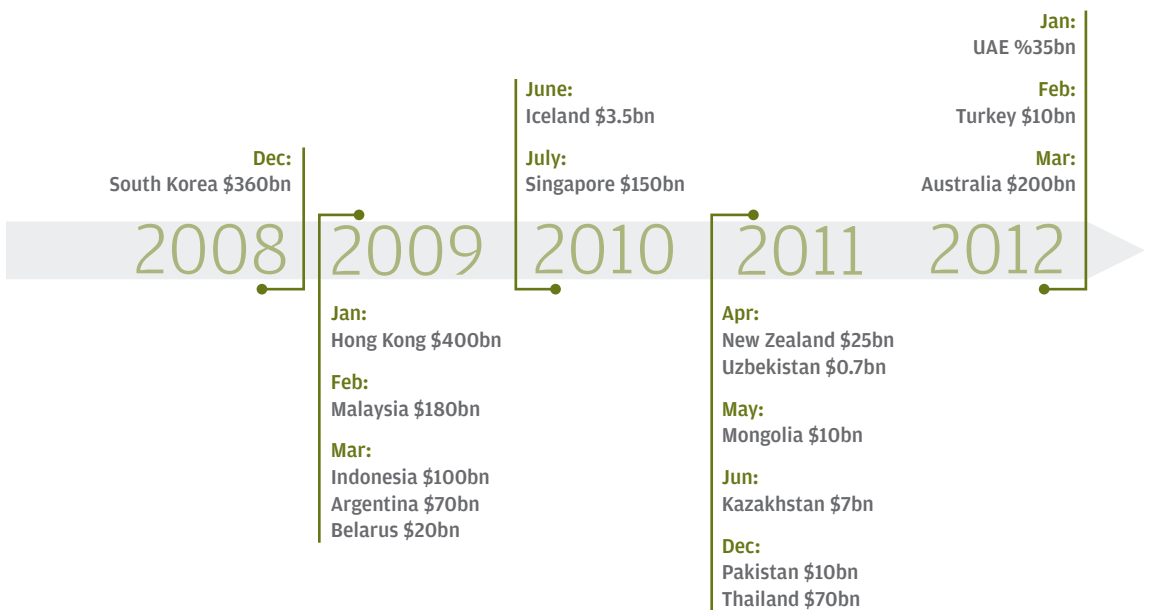


Figure 4. Timeline of swap lines established by central banks

Source: PBOC Press Releases Dollar amounts in Billion Yuan

Some of the distinguishing features of CNAPS compared with international standards (e.g. CHIPS and Fedwire) include:

International payment formatting standards: CNAPS is not SWIFT-based and formats therefore differ from SWIFT guidelines. CNAPS Generation 2 will be rolled out across 2013 - 2014 and will be more in line with international standards

Charging Mechanism: CNAPS does not have an option to indicate BEN/ SHA/ OUR and all payments are treated on a BEN basis

Local Language: CNAPS has dual language capabilities to support beneficiary names in Chinese. SWIFT FIN is based on Roman characters, making it difficult to use SWIFT for all payment types. As Chinese companies become more international, use of Roman characters in beneficiary names is increasing, however there is still some way to go to achieve full efficiency

Straight through processing (STP):

It is not yet possible to achieve end to end STP using existing clearing systems. Banks in China are required to add specific codes noting the purpose of each payment cleared through CNAPS. Beneficiaries are not able to receive proceeds until supporting documentation is provided

Payment Returns: Due to regulatory controls and lack of standards, payments are commonly returned net of beneficiary deduction. J.P. Morgan has provided guidelines to assist with managing these payment returns. These can be found in the Appendix section of this Handbook.

Clearing infrastructure

In mainland China, RMB is cleared domestically via the China National Advanced Payment System (CNAPS). This is a Central Bank operated RMB clearing system providing both real-time gross settlement and net settlement. The system has two modules: High Value Payment System (HVPS) and Bulk Electronic Payment System (BEPS).

HVPS is a real-time gross settlement for high value (over RMB 50,000) or urgent payments. All cross-border RMB flows are cleared through HVPS regardless of amount. Payments are processed continuously throughout the system's operating hours (08:30 to 17:00 China working days).

BEPS is a netting and batch clearing system for low-value (< = RMB 50,000) payments. The netting calculation is running 24 hours, 7 days a week, but settlement takes place 6 times a day at the national processing center and 3 times a day at the city clearing processing centers from 10:00 to 16:00 China working days.

To have direct access to CNAPS, a bank must have a settlement account at a branch of China's central bank. All financial institutions in China that are approved to provide RMB services are eligible for direct access.

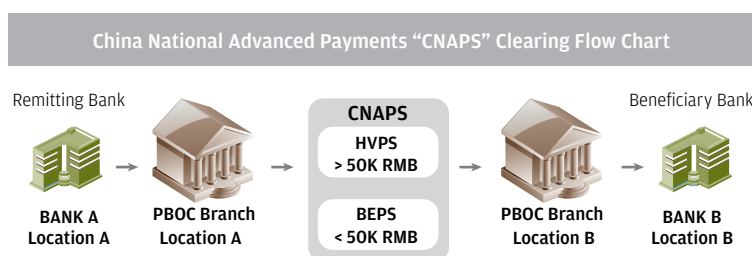


Figure 5. CNAPS Clearing Flow Chart
Data Source: People's Bank of China

In line with expected surge of growth in RMB as a result of internationalization, PBOC has announced the launch of a new payment system called China International Payment System (CIPS) which will be available at the end of 2013/2014 for cross border RMB settlement. CIPS will be SWIFT-based and modeled on CHIPS in the United States of America, including integration with CNAPS modeled on Fedwire.

Navigating the Offshore RMB Market

With the RMB-denominated products and deepest liquidity pool, Hong Kong also boasts a multi-currency domestic clearing platform.

RMB center in Hong Kong¹

Hong Kong was the first market to support a RMB clearing system outside of mainland China. It has the most developed offshore RMB market today with the widest range of RMB-denominated products and deepest liquidity pool. Hong Kong also boasts a multi-currency domestic clearing platform.

Foreign central banks can hold RMB as part of their foreign exchange reserves or invest in RMB-denominated bonds in Hong Kong and mainland China. Banks can offer RMB products and services to local residents and non-Hong Kong residents, subject to restrictions. RMB conversions for residents are capped at RMB20,000 daily and remittance to China on same-name basis cannot exceed daily RMB80,000 limit. RMB personal loans and leveraged trading facilities to Hong Kong residents are prohibited, as are remittances by non-HK residents into Mainland China.

Foreign and Chinese companies, as well as mainland financial institutions, can issue RMB bonds and IPO in Hong Kong and remit the proceeds into China in certain situations. In addition to RMB trade financing facilities, RMB-denominated bilateral and syndicated loans, bankers' guarantees are also available to institutional clients in accordance with Hong Kong banking rules and practices. In addition, RMB deposits, which are deposit-insured in Hong Kong up to a cap, may be used as collateral against loans.

Hong Kong subsidiaries of mainland securities firms and asset managers can launch SFC-authorised RQFII funds in Hong Kong once these firms have obtained RMB QFII licenses from CSRC and a quota from SAFE. RQFII holders are also permitted to issue RMB A-share exchange-traded funds to be listed on the HKEx that invest in composite equities of A-share indexes. The world's first deliverable offshore RMB currency futures are now being traded, in order that enterprises can hedge RMB currency risk.

Hong Kong's Chinese Gold & Silver Exchange Society started trading gold quoted in RMB while the Hong Kong Mercantile Exchange plans to offer RMB-denominated gold futures, as well as RMB-based contracts for copper and other industrial metals in the future. HKEx introduced an RMB Equity Trading Support Facility in October 2011 to enable secondary trading of RMB-denominated securities; however, the issuance of the first RMB-denominated equities is delayed by uncertain market sentiment.

The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) free trade agreement opened up new business opportunities for Hong Kong goods and services to the mainland, Hong Kong and all foreign investors. In particular, Hong Kong service suppliers enjoy preferential treatment in entering into the mainland market in various service areas, including financial services.

Other markets such as Malaysia and Taiwan have since announced the introduction of a domestic RMB clearing system with Singapore and London potentially to follow suit. These are discussed in more detail later in this section.

¹ Hong Kong – The Premier Offshore RMB Business Centre published by HKMA
<http://www.hkma.gov.hk/media/eng/publication-and-research/hkrmb/hkma-rmb-booklet.pdf>

CNH foreign exchange

Since 2010, the RMB fund flow in Hong Kong has been largely unrestricted, provided the funds do not flow back to the mainland. Existing channels for remitting offshore RMB into China include foreign direct investment, cross-border RMB loans, proceeds of offshore RMB bonds issued by Chinese institutions, investment via RQFII and RQFII-ETF funds and RMB investments by offshore central banks, RMB clearing banks and offshore participating banks in China's interbank bond market.

Accumulated RMB can be invested in a variety of investment products such as RMB deposits, bonds, CDs, REITS, CLN, ETF, structured products linked to underlying FX, gold, equity or interest rate instruments, RMB-denominated investment funds and RMB insurance policies.

Banks in Hong Kong can now provide RMB currency products in the same way they provide any other foreign currency products (USD or JPY, for example), in line with normal banking laws. This has given rise to an offshore USD/ CNY (HK) market in Hong Kong. All corporates and institutions, regardless of the nature of their business or investor profile, can access CNH products and hold CNH accounts, as long as they comply with normal banking laws in Hong Kong, without additional approvals from HKMA or SAFE. Alongside onshore USD/CNY and offshore NDFs, offshore USD/ CNY (HK) now forms a third distinct market for RMB. It is a deliverable product that trades off the offshore CNH liquidity pool that has flowed into HK.

A two-tier exchange market for offshore RMB exists in Hong Kong; one market rate for RMB exchange for trade settlement purposes (subject to the quota of the clearing bank) and the other rate for general purposes quoted on the interbank market. With rising demand of RMB trade settlement and greater availability of the currency offshore, RMB foreign exchange derivatives such as RMB forwards, RMB options and RMB swaps have come into the market.

Daily volumes of offshore USD/CNY (HK) FX spot transactions now average USD 3 billion. Transaction sizes average USD 10-20 million with a bid-offer spread of about 5-10 pips wide. Deliverable forwards are also available, with a daily volume of about USD 8 billion. The market is quoted out to 1 year, however liquidity tends to concentrate on the short dates.

Given the lack of free capital movement from the mainland to Hong Kong, arbitrage flows are still limited and, there is a tendency for USD/ CNY (HK) to trade below onshore USD/CNY. However, this difference is narrowing as increased CNH trading account setting and trading activity have heightened the market's capacity to establish convergence trades between USD/ CNY (HK) and onshore USD/CNY.

Deliverable forwards are typically preferred for hedging purposes because they are generally eligible to apply for hedge accounting, although organizations should seek their own accounting advice on this.

In addition, HKMA signed bilateral agreements with Euroclear Bank and J.P. Morgan to deliver a cross border liquidity and secured lending channel in Hong Kong.

Corporations and institutions should be aware of the movements of these three markets (onshore, NDF and CNH) to determine the best rate. Currently, many prefer Hong Kong as their offshore hedging center to other emerging centers (such as London and Singapore, as detailed below) because of the flexibility to hedge in different markets.

Access to liquidity

The biggest pool of liquidity today is from deposits for which Hong Kong has the largest RMB liquidity pool of all offshore markets, with RMB deposits totaling RMB 563.2 billion (USD 90 billion equivalent as of July 2012) compared to RMB 16.1 billion deposit base in Taiwan and approximately RMB 60 billion deposits in Singapore.

Currently, liquidity in the CNH market is limited to client deposits, FX swaps, and interbank cash market with an intraday repo facility from the designated clearing bank as the only available source of secured liquidity on an intraday basis.

In June 2012, HKMA introduced a RMB liquidity facility to Hong Kong banks to enable the use of the currency swap arrangement between PBOC and HKMA to manage short term liquidity needs on the back of eligible collateral acceptable to the HKMA.

In addition, HKMA signed bilateral agreements with Euroclear Bank and J.P. Morgan to deliver a cross border liquidity and secured lending channel in Hong Kong. The new service enables international financial institutions to use securities held with Euroclear Bank or J.P. Morgan as collateral in triparty repo transactions with members of HKMA's Central Moneymarkets Unit (CMU), to access liquidity from Hong Kong, in particular HKD and CNH. Euroclear Bank or J.P. Morgan will act as triparty collateral management agents to the repo transactions, ensuring that administrative obligations, such as collateral valuations, eligibility, haircuts and substitutions are carried out automatically on behalf of the two counterparties to the securitised deal.²

In 2012, the CNH interbank market has been liquid and stable. Since late 2011, regulators have increasingly allowed banks and corporates who straddle both HK and the mainland to take advantage of differences in pricing between onshore and offshore market prices, resulting in liquidity in the CNH market.

² Hong Kong Monetary Authority
Press Release <http://www.hkma.gov.hk/eng/key-information/press-releases/2012/20120620-3.shtml>

Considerations of CHATS compared to other RTGS, such as CHIPS in the US include:

Intraday liquidity management.

Hong Kong member banks are required to observe throughput ratios to maintain efficiency i.e. to release and settle no less than a certain percentage of the total day's value of RMB payments by stipulated times at 13:30 and 16:30 Hong Kong time. Apart from critical payments, settlement may not occur on a real time basis

Use of a commercial bank as CHATS clearing bank.

As the settlement institution for CHATS is a commercial bank, financial institutions participating in CHATS need to manage commercial bank settlement risks

Access to Liquidity. Settlement accounts are maintained with the appointed clearing bank and not a central bank and thus access to liquidity to the central bank is not direct with further details provided above of how liquidity is managed in the framework

CHATS operates across extended hours (08.30 to 23.30 Hong Kong time) to support markets in Asia, Europe, US and Africa for RMB payments and settlements.

Funds transfers between different RMB accounts are allowed without restriction in Hong Kong.

Please refer to Appendix 2 for a comparison between CNAPS, CHATS, CHIPS and Fed Wire.

Clearing infrastructure

In 2007, the RTGS in Hong Kong, the Clearing House Automated Transfer Service (CHATS), was extended to RMB including:³

- RMB interbank funds transfers
- Delivery versus Payment for RMB-denominated bonds through a linkage with the CMU
- Automated remittance of RMB funds relating to issuance of RMB bonds

Figure 6 depicts how banks will settle transactions within the Hong Kong market and facilitate trade settlement into China.

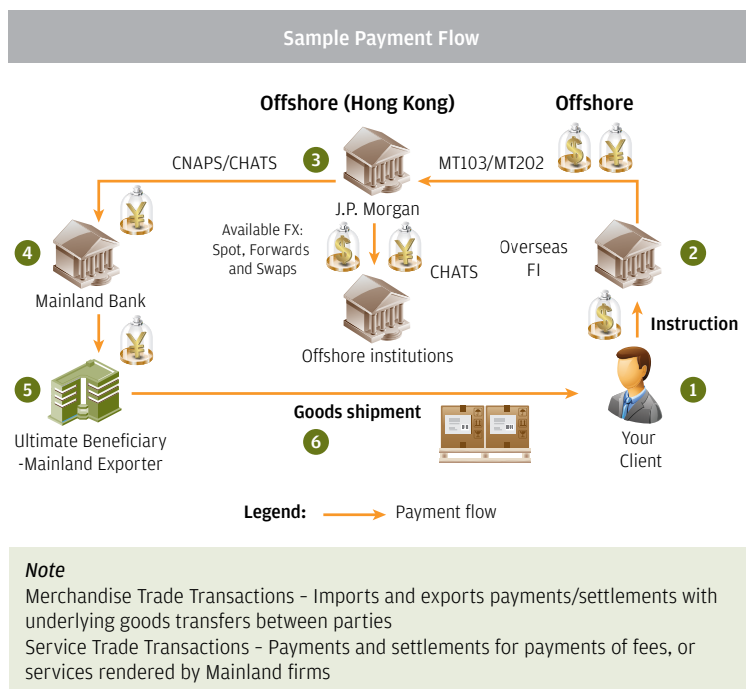


Figure 6. Sample RMB RTGS payment flow

³ www.hkicl.com.hk

Offshore debt market offerings

The capital market currently comprises plain, fixed income instruments. CNH bond issuance grew from CNH 30bn in May 2010 to CNH 352bn in Jun 2012, with 152 issuers of 739 bonds with ECP issuers also entering into the market. The majority of outstanding issuance has a tenor of 3-5 years, with shorter term papers still relatively limited.

i Dim sum bonds

The “dim sum” bond market generally refers to RMB-denominated bonds issued in Hong Kong. The majority of dim sum bonds are denominated in CNH, but some other bonds are linked to CNY (but paid in USD).

China’s CNH-denominated benchmark sovereign bond curve is currently comprised of a single issue each of 3-year, 5-year, 10-year, 15-year CGBs. These bonds were issued by the Ministry of Finance in the Hong Kong market in December 2010, August 2011 and June 2012. Initially, their yields were significantly below mainland government yields, as they were commonly used as a CNY appreciation proxy. But as more repatriation channels are allowed, coupled with a depreciation expectation in CNY, the offshore CNH yields gradually converged with onshore. Along with China’s sovereign CNH bonds, the corporate CNH issuance market has increased sharply since the lifting of restrictions on trading CNH in mid-2010. As of June 2012, the total outstanding was CNY 220 billion.

To date, dim sum bonds have been issued by entities in 18 countries and regions (excluding BVI and Cayman Islands). Issuers from China account for 47% of outstanding dim sum bonds, or as much as two-thirds of the total when including Chinese issuers registered in Hong Kong and elsewhere. The greatest issuers are banks (29%), government agencies (25%), and sovereigns (24%). Multinational corporations (MNCs) have been actively issuing dim sum bonds. During Q1, 2012, major MNCs, such as Ford, Caterpillar, Alstom, and America Movil, issued dim sum bonds in Hong Kong that were well received by investors; for example, Ford Motor’s low-grade (BB-) bond was ten-times oversubscribed.

Currency appreciation was the main driver in the early stages of the CNH market, which kept demand much higher than the market supply; there was no secondary market. As a result, all investors, including funds, purchased all available securities, regardless of grade or maturity. With an increasing number of issuers entering the offshore market, the CNH market is expected to continue to grow, both in volume terms and range of instruments.

Bonds denominated in CNH can be settled using Euroclear and Clearstream, as well as in Hong Kong using the domestic settlement system HKMA CMU.

SGX is also the world's first exchange to offer the clearing of OTC FX forwards for RMB.

ii) Certificates of deposit (CD)

CDs have become a core component of the dim sum product suite; for example, in February and March 2012, nearly 70% of all dim sum products were CDs. Chinese banks' Hong Kong subsidiaries issue around 80% of all offshore RMB CDs, with the rest issued by Hong Kong and multinational institutions. Although the yield on CDs has reduced a little, it is still highly attractive compared with time deposit rates.

Other offshore RMB markets

i) London

The City of London Corporation has stated its interest to make the city an offshore RMB hub in the West, supported by banks and other private-sector bodies. This initiative has received encouragement and support from the governments of China and the United Kingdom. As global financial center, London is already a trading center for RMB FX products with an estimated 25% of the global offshore RMB spot market. London holds significant RMB funds of about RMB 109 billion, of which RMB 35 billion is customer deposits. The RMB deposits in London are accumulated from various sources, including bilateral trade in goods between the UK and China. RMB-denominated bonds have also been issued in London.

ii) Singapore

In March 2012, the Singapore Exchange (SGX) announced that it is ready to list, quote, trade, clear and settle RMB-denominated securities, complementing the offshore RMB bonds already listed on the exchange. Issuers listing RMB securities on SGX can also choose to offer dual currency trading, while investors have the flexibility to trade the security either in RMB or SGD. SGX is also the world's first exchange to offer the clearing of OTC FX forwards for RMB.

Singapore's Ministry of Trade and Industry and the Chinese Ministry of Commerce have recently agreed to enhance their banking services cooperation under the China-Singapore Free Trade Agreement (CSFTA). Under this arrangement, two eligible Chinese banks currently operating in Singapore will be granted Qualifying Full Bank (QFB) privileges and one of these banks will be authorized as the RMB clearing bank in Singapore.

Recent regulatory liberalization allows domestic banks to invest in A-share equities, subject to meeting QFII qualifications.

iii) Taiwan

Since 2010, an Economic Cooperation Framework Agreement (ECFA) has been in place between China and Taiwan, establishing preferential trade terms and reducing cross-strait commercial barriers.

The central banks of Taiwan and China signed a landmark agreement August 31, 2012 to appoint RMB and NTD clearing banks in Taiwan and China respectively. Offshore Banking Units (OBU) and Domestic Banking Units (DBU) are now permitted to conduct RMB business such as deposits, loans, trade financing, remittance and derivatives (subject to the establishment of a currency clearing mechanism between Taiwan and China). OBU and DBU can conduct RMB interbank lending/borrowing activity.

Taiwanese entities are able to issue offshore RMB bonds in Hong Kong on condition that the funds are not repatriated back to Taiwan. Domestic banks can also invest in RMB-denominated securities, including both CNY government and corporate bonds and CNH bonds by Chinese and non-Chinese issuers in Hong Kong. Recent regulatory liberalization also allows domestic banks to invest in A-share equities, subject to meeting QFII qualifications.

Investments by overseas branches of domestic banks in mainland Chinese stocks are subject to some restrictions. For instance, they cannot own more than a 5% stake in a Chinese company and total investments in various Chinese securities cannot exceed 25% of the bank's book value. Taiwanese insurance companies can invest in securities and RMB-denominated bonds issued in Hong Kong, up to 10% of their overall overseas investment in Hong Kong-listed red chip stocks, H-shares, ETF issued by companies listed on the Hang Seng China Enterprises Index, as well as RMB corporate and financial bonds in Hong Kong.

The Taiwan authorities are seeking to further increase regulatory liberalization once the RMB clearing mechanism has been established. The proposed measures include share listing of Taiwanese-invested enterprises registered in mainland China at the Taiwan bourse, issuance of RMB-denominated international bonds in Taiwan and for Chinese banks QDII to invest in Taiwan's stock market and vice versa i.e. Taiwanese banks investing discretionary-account wealth-management funds to access China's stock market.

Opportunities for global corporations and financial institutions

Introduction

RMB internationalization presents corporations and financial institutions alike with new opportunities to improve working capital flows and enable RMB to be managed as another currency within established treasury and foreign exchange risk management practices. This section provides a guide for financial institutions on how best to support their corporate clients' trade with counterparties in China, enabling them to leverage new opportunities and demonstrating best practices.

In addition, financial institutions seeking to provide commercial clients with RMB services in order to deepen existing relationships or grow market share, need to demonstrate credibility in understanding and responding to evolving market practices and regulations. To support this objective, we have put together guidebooks to address the following:

Appendix 3 - Detailed guidance outlining the payment formatting requirements for remittance using international payment standards (i.e. SWIFT) and China's local payment network (CNAPS).

Appendix 4 - Regulatory and operating considerations of managing payments in mainland China. Specifically, this Appendix addresses the topic of payment returns in detail.

In addition to providing our clients timely and comprehensive updates on key regulatory changes, J.P. Morgan's RMB experts can be reached at rmb.communications@jpmorgan.com to address any further questions.

RMB cross-border settlement

Any authorized importer or exporter in or out of China is eligible to settle transactions in RMB. This applies to commercial transactions as follows:

1. Trade Settlement including the sales and purchase of goods/ services with mainland China is further defined as:
 - Merchandize trade settlement where there is the physical exchange of goods
 - Services defined as professional services and consultancy. The party providing the services must be a corporate body (i.e. payments to individuals are not allowed)
2. Approved Capital Activities including Foreign Direct Investment, Shareholder Loans and investment in the RMB Qualified Foreign Institutional Investor (RQFII) scheme

Banks in Hong Kong must be advised of the details of the underlying transaction for regulatory and reporting requirements and may request missing information before settlement can take place. SWIFT has published the offshore CNY guidelines listing the information required and recommending how these fields are populated. These can be found at <https://www.swiftcommunity.net/communities/332/detail>.

It's important for financial institutions to prepare your clients for settlement in RMB.

Trade settlement

The benefits for corporations using RMB for cross-border trade settlement can be viewed from the perspective of purchases and sales flows as outlined in figure 7 below.

	Purchases (payments)	Sales (collections)
Buyer	Foreign company	Chinese company
Seller/ Supplier	Chinese company	Foreign company
Benefits to Buyer	<ul style="list-style-type: none">• Opportunity to negotiate a lower pricing with suppliers• Actively manage (FX) risks in the offshore CNY market• Access to more suppliers in China	<ul style="list-style-type: none">• Eliminate FX risk as payments are in local currency• Potentially lower costs
Benefits to Supplier	<ul style="list-style-type: none">• Eliminate FX risks as receipts are in local currency• Shorter cycle to receive proceeds on provision of documentation	<ul style="list-style-type: none">• Access to more buyers in China• Actively manage FX risk in the onshore and offshore CNY markets to manage pricing

Figure 7. Benefits for corporations using RMB for cross-border trade settlement

Preparation for Chinese suppliers receiving RMB payments

- **Bank account registration and transaction reporting in RCPMIS**
RCPMIS is the official RMB transaction information system mandated by PBOC for mainland banks. Mainland corporations transacting cross-border RMB payments or collections must register their company names into RCPMIS via their banks.
- **Account eligibility for RMB payments**
Mainland suppliers need to confirm and present proof of eligibility for conducting the underlying RMB trade, including a valid import or export license.
- **Supporting documentation requirements**
Mainland corporations receiving RMB payments are responsible for providing supporting documentation (i.e. invoices, custom declaration forms, etc.) before funds are released. If correct documentation is not provided, payments are returned.

A sample letter directed at mainland corporations has been provided in Appendix 3 to assist foreign corporations with the discussion on RMB settlement of cross-border flows.

Collections in RMB, as well as payments, are also becoming important as the strength of mainland China buyers continues to grow. It is important for overseas corporations to understand the clearing mechanisms and timelines for the receipt of funds, as outlined in figure 8.

Documents commonly required for trade settlement include the bill of lading and other shipping documents and invoice (Fa Piao). All payments are received net of bank charges (i.e. on BEN basis)

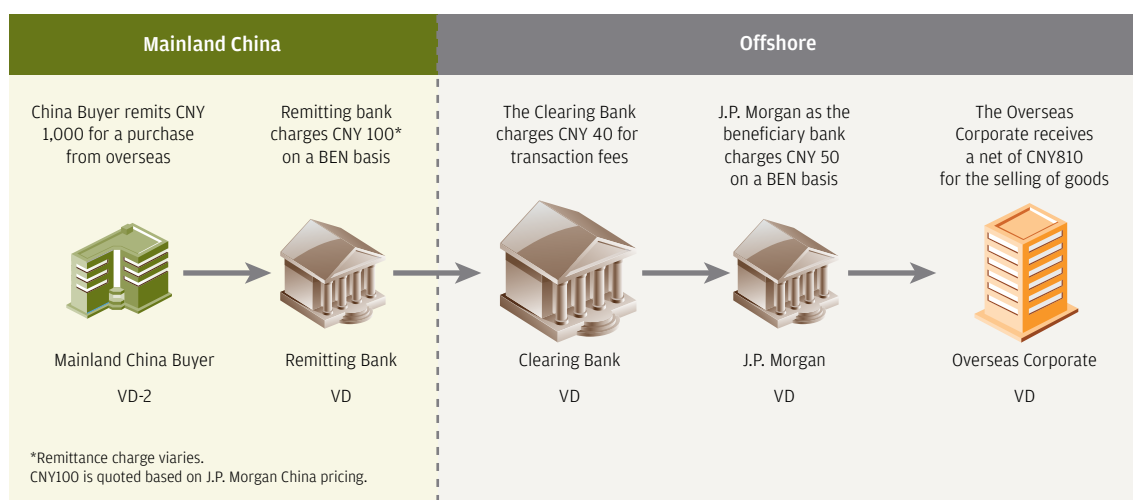


Figure 8. Cross-border RMB payments from Chinese buyer to foreign seller

Approved capital flows

RMB foreign direct investment and shareholder loans

In October 2011 and July 2012, authorities in China issued new guidelines aimed at promoting foreign direct investment (FDI) and shareholder loans in RMB as part of the RMB internationalization agenda. Foreign corporations wishing to take advantage of the scheme can only make use of approved sources of funds:

- Funds obtained from settlement of cross-border trade in RMB;
- Funds obtained through RMB repatriated from China as dividends, share transfer, capital reduction, liquidation and early recovery of investment gains;
- Issuance of RMB bonds or stocks;
- Existing cash reserves may be considered as valid source of funds (as approved by Ministry of Commerce (MOFCOM));

The detailed approval process is available in Appendix 5.

J.P. Morgan onshore RMB solutions

J.P. Morgan in China

J.P. Morgan commenced operations in China in 1921 with the opening of an office in Shanghai. We are one of the first groups of foreign banks that were locally incorporated in Beijing in 2007, and have seven branches across China - Beijing, Chengdu, Guangzhou, Harbin, Shanghai, Suzhou and Tianjin.

J.P. Morgan entities operating in China include -

JPMorgan Chase Bank (China) Company Limited is a fully licensed bank incorporated and operating under the laws and regulations of the People's Republic of China. Its licenses include derivatives, foreign exchange and local currency trading, government bond underwriting, trade finance, cash management and commercial banking.

J.P. Morgan Securities (Asia Pacific) Representative Offices in Beijing and Shanghai are approved by the China Securities Regulatory Commission (CSRC) and carry out liaison and market research functions for the cross-border and offshore investment banking business of J.P. Morgan

J.P. Morgan (China) Venture Capital Investment Co. Ltd. develops private equity investment opportunities for J.P. Morgan.

JF Asset Management Limited Beijing Representative Office is approved by the China Securities Regulatory Commission (CSRC) and carries out advisory, liaison and market research functions for the asset management business.

China International Fund Management Company Limited is a joint venture with Shanghai International Trust and Investment Company Limited and is a leader in China's fund management industry.

JPMorgan Chase Vastara International Trade Consulting (Shanghai) Company Limited is a 100% owned subsidiary of JPMorgan Chase Bank, N.A. and delivers sophisticated cross-border trade, regulatory compliance and supply chain consulting services to corporate clients of J.P. Morgan worldwide.

J.P. Morgan Futures Co., Ltd. is the first Sino-Foreign commodity futures joint venture approved by the China Securities Regulatory Commission (CSRC) in the commodities sector.

J.P. Morgan First Capital Securities Co. Ltd. is jointly established by First Capital Securities Co. Ltd. and J.P. Morgan Chase & Co. Headquartered in Beijing, the company is engaged in offering international-standard investment banking services to Chinese clients, including securities underwriting, financial advisory to corporate M & A and other capital market-related services.

Licensed Products

J.P. Morgan is licensed as follows and proactively delivers onshore RMB services:

- FX Designated Bank (Beijing, Shanghai & Tianjin)
- RMB business (Beijing, Shanghai & Tianjin)
- Member of RMB interbank market
- Member of interbank FX market
- Trading licenses for financial derivatives
- CNY forward
- CNY FX swap
- CNY interest rate swap
- CNY cross currency swap
- CNY forward swap
- CNY structured deposit

Leveraging onshore RMB solutions

Overseas financial institutions that are most likely to benefit from onshore RMB solutions are typically those that have the following characteristics:

- Seeks higher investment returns
- Only requires funding for commercial settlement flows in line with regulations
- Has more collection than payment flows
- Does not require intraday or end of day liquidity support

As the CNY FX spot rates are fixed daily; overseas financial institutions operating in a different time zone (from China) may not be able to access this rate at time of conversion.

Clearing capabilities

J.P. Morgan Chase Bank (China) Co. Ltd was one of the first foreign banks to become a RMB domestic agent bank under the RMB internationalization scheme. As a RMB domestic agent bank, J.P. Morgan China provides RMB clearing services to overseas financial institutions establishing in China.

Financing capabilities

The launch of the cross-border trade settlement scheme in RMB, coupled with the gradual deregulation of China's capital and debt markets offshore, has presented an important opportunity for international financial institutions and corporates alike to tap into the offshore RMB capital pool as a source of funding.

J.P. Morgan, with its solid balance sheet and global franchise, has invested heavily in its offshore RMB financing offering, which include:

i Onshore RMB trade financing

As a key partner to financial institutions around the world, J.P. Morgan offers a comprehensive range of RMB trade products and services in China, including:

- A full suite of export L/C end to end solutions
- Standby L/C guarantee re-issuance
- Export L/C refinancing under financial institution instructions
- Draft/ PN discounting or purchased - FI Awaled or Accepted
- Trade in-sourcing

ii Onshore RMB foreign exchange solutions

J.P. Morgan has obtained licenses for CNY FX spot, forward, swaps and options, and is able to provide two way quotations and a variety of FX solutions. Some of our awards include:

“Best Foreign
Investment
Bank
in China”

*Award by <Fortune>
Magazine*

China Best
Trader Bank
of onshore
FX inter-bank
market by
CFETS, China FX
regulator, 2011

China FX trial
market maker
for spot fwd
swap since
2010, with full
FX products
licenses in
China

J.P. Morgan offshore RMB solutions

By adopting a single customer service model globally, we are able to provide a consistently high quality of service in RMB as with other established global currencies.

Introduction

As of today, J.P. Morgan offers RMB services in 14 offshore locations worldwide, including Hong Kong, New York, Singapore, Sydney, London, Mumbai, Taipei, Seoul, Tokyo, San Paolo, Manila, Kuala Lumpur and Bangkok. RMB services rollout locations are in accordance to where trade settlement agreements are established with China. We recommend that our overseas financial institution clients access RMB services in Hong Kong for the following reasons:

Hong Kong is the only official clearing location, with the largest RMB pool among all offshore locations.

Hong Kong's domestic clearing system is integrated with China's CNAPS, enabling efficient payment processing.

J.P. Morgan has located its global RMB hub in Hong Kong. This comprises key RMB expertise and dedicated client service teams combining local knowledge and experience based on our market leading USD and EUR clearing capabilities. By adopting a single customer service model globally, we are able to provide a consistently high quality of service in RMB as with other established global currencies.

Leveraging offshore RMB solutions

Overseas financial institutions that are most likely to benefit from onshore RMB solutions are typically those that have the following characteristics:

- Flexibility in accessing the offshore market for treasury and funding settlement, as well as commercial settlement into China
- Wish to access the CNH FX market to actively manage risks
- Require intraday liquidity support
- Do not have the resources to manage the regulatory requirements as conditions to access the CNY FX rates

J.P. Morgan in Hong Kong

Hong Kong is the regional headquarters for J.P. Morgan's Asia Pacific business, which operates in more than 35 offices across 15 countries. J.P. Morgan is one of Hong Kong's longest established foreign financial services businesses.

One of the principal functions of the Hong Kong office is to contribute to the operations and expansion of the firm's mainland China operations. This office provides services across Corporate & Investment Banking, Asset Management and Commercial Banking. J.P. Morgan offers clients an integrated range of services that combine specialist local knowledge with leadership positions across these businesses.

J.P. Morgan Chase Bank N.A. Hong Kong Branch is a Direct Participating Bank of the RMB CHATS system provides RMB deposit, payment and collection services to local and overseas financial institutions. General RMB treasury settlement offshore as well as eligible settlement⁴ into China can be supported.

Offshore RMB financing

Intraday overdraft

Intraday overdraft facilities provide liquidity support and facilitate clients' daily payments. This offering is subject to credit lines being assigned by J.P. Morgan.

Offshore RMB trade financing

As a key partner to financial institutions around the world, J.P. Morgan is committed to offering a comprehensive range of RMB trade products and services in key financial cities such as Hong Kong and Singapore

- A full suite of Export L/C end to end solutions
- Standby L/C guarantee re-issuance
- Export L/C refinancing under financial institution instructions
- Trade in-sourcing
- J.P. Morgan offers a suite of short term working capital loans and longer term financing solutions in its offshore branches. These are intended to help clients to establish more efficient and effective financing structures.

⁴Eligible commercial settlement includes merchandise trade, service trade. Regulatory approved capital flows and other current account transactions.

A repo financing program was developed in partnership with HKMA, illustrating J.P. Morgan's pivotal role in the development of Hong Kong's capital markets.

Offshore RMB debt origination

J.P. Morgan provides debt financing services to global financial institution clients. J.P. Morgan has been ranked as the No.1 book runner among all U.S. banks in the offshore RMB bond market for the period of 2010-2012 (YTD), and No.1 among global US dollar bond houses since 2008. With a proven track record and client focused service capabilities, we have successfully executed a number of important offshore RMB transactions over the past 2 years for financial institutions and corporates alike.

Collateral management

J.P. Morgan offers a repo financing program that facilitates repo financing transactions between members of Hong Kong's CMU and overseas financial institutions. This was developed in partnership with HKMA, illustrating J.P. Morgan's pivotal role in the development of Hong Kong's capital markets. The financing facility provides repo buyers and sellers with the ability to use equity and fixed income securities, among other asset types, as collateral for repo financing. Daily repo valuations, collateral valuations and margin calls are also supported. By entering into repo financing transactions with CMU members, financial institutions can obtain access to liquidity not only in offshore CNH, but other global currencies, such as EUR, HKD and USD, in Hong Kong.

Cash settlement takes place through Hong Kong's local clearing (RTGS) system, providing repo buyers and sellers the ability to settle cash during Hong Kong business hours.

Offshore RMB FX solutions

J.P. Morgan is a market leader in providing offshore RMB FX solutions and has obtained licenses for CNY offshore NDFs and CNH offshore deliverable forwards and swaps. Our branches in Hong Kong, Singapore, London and New York are equipped to offer CNH FX products, enabling overseas financial institutions and corporates to access FX products in the offshore markets, where limited (or no) restrictions are imposed, compared with the onshore market. J.P. Morgan has the following credentials in FX:

We are the
No.1
liquidity
provider,
with 8-10%
of overall
RMB FX
volumes.

Market
maker
in over
300
currency
pairs in FX
products

No.2
player in FX
derivatives
in emerging
markets

No.2
player in FX
derivatives
information
flow &
research

Offshore RMB NDFs

J.P. Morgan is one of the biggest market makers in offshore RMB NDFs. We provide telephone-based and electronic pricing (through Morgan Direct - J.P. Morgan's proprietary platform as well as certain third party platforms) during the Asia, London and US time zones.

Other FX Instruments

J.P. Morgan offers cross-currency swaps and options for asset/liability management. These products are available from 1 month (for FX options) up to a maturity of 5 years and beyond (for cross currency swaps).

Global custody

J.P. Morgan provides custody and securities servicing solutions to the world's leading institutional investors. We meet the needs of our institutional investor clients by providing extensive experience, comprehensive products and advanced technology designed to optimize efficiency, enhance revenues and mitigate risks associated with global investment.

Within the offshore RMB market, J.P. Morgan supports clients holding offshore RMB-denominated securities in Hong Kong and at International Central Securities Depositories such as Euroclear via our Global Custody solution, providing institutional investors and financial institutions with an efficient means of settling and safekeeping offshore RMB assets.

- Global custody goes beyond the settlement and safekeeping of securities. J.P. Morgan supports clients throughout the post-trade securities lifecycle in every market where clients wish to invest, delivering a stable, consistent service irrespective of the market.
- Complementing the Global Custody solutions is a full suite of products to support the needs of institutional investors. J.P. Morgan delivers highly integrated, innovative and leading-edge accounting and fund administration solutions that help clients mitigate risk, increase efficiencies and enhance returns. The bank's comprehensive product offering includes fund-level compliance, tax, financial reporting, and performance analytics.

J.P. Morgan investment solutions

Interest Bearing and Time Deposit Accounts

J.P. Morgan's Demand Deposit Accounts provide credit interest on surplus account balances. We offer durations of Time Deposit Accounts of up to 1 year.

Offshore Debt Markets Offerings

J.P. Morgan is a market maker in dim sum bonds. We can provide standardised as well as bespoke solutions (such as credit-linked notes denominated in CNH) for cash investment.

J.P. Morgan RMB asset management solutions

RMB Managed Income Fund

J.P. Morgan's RMB managed income fund was the first investment-grade, short-term fixed income fund in the market, and is suitable for investment of reserve cash in offshore RMB with an investment horizon of 6 months or longer.

Managed income is a proven strategy of J.P. Morgan Asset Management with over \$31bn in assets managed in a range of currencies globally. The RMB Managed Income Fund was the best performing CNH bond fund in the first year since its launch (For year ended Mar 2012 (+0.10%) vs. HSBC Bond Index (-2.25%). Current YTM is 2.93% (as of August 31, 2012).

Other asset management solutions

J.P. Morgan provides comprehensive offshore RMB asset management solutions, including:

- CNH separate account - discretionary mandates based on clients' specific investment guidelines
- CNH Bond Fund (expected to launch in 2013)
- CNH Liquidity Fund (waiting for market to further develop)
- RQFII products - under the brand of CIFM HK (expected to launch in 2013)

J.P. Morgan RMB experts

Speak to J.P. Morgan now to find out more about the opportunities that RMB offers for your business:

Global emerging markets

FX Solutions

Dennis Wong

Head of Global Emerging Markets, Greater China

Tel : +86 21 5200 2825

Email : dennis.pk.wong@jpmorgan.com

FX Research

Bert Gochet

Head of FX Research – Asia Pacific

Tel : +852 2800 8325

Email : Bert.l.gochet@jpmorgan.com

Debt Origination

Mark Follett

Head of Debt Origination – Asia Pacific

Tel : +852 2800 6853

Email : mark.follett@jpmorgan.com

Cash & Trade Management

Kiat Seng Lim

Head of Financial Institutions Sales

Tel : +65 6882 2515

Email : kiat.s.lim@jpmorgan.com

RMB Clearing

Ann Lin Khoo

Senior Product Manager

– Global RMB Clearing

Tel : +852 2800 1387

Email : Annlin.khoo@jpmorgan.com

Global Trade

George Fong

Product Management & FI Advisory

– Asia Head

Tel : +852 2800 1930

Email : george.sw.fong@jpmorgan.com

Worldwide Securities Services

Sam Lam

Head of Sales and Relationship

Management, North Asia ex Japan

Tel : +852 2800 0780

Email : Sam.lam@jpmorgan.com

ACCE – Agency Clearing Collateral & Execution

Kirit Bhatia

Head of Collateral Management

Sales – APAC

Tel : +852 2800 1066

Email : Kirit.bhatia@jpmorgan.com

Asset Management

Travis Spence

Head of Global Liquidity

for Asia Pacific, Asset Management

Tel : +852 2800 2808

Email : travis.w.spence@jpmorgan.com

Onshore CNY

FX Solutions

Kevin Sung

Head of Sales, China,

Global Emerging markets

Tel : +86 21 5200 2988

Email : kevin.sw.sung@jpmorgan.com

FX Research

Ying Gu

FX Research – China

Tel : +86 21 5200 2833

Email : Ying.k.gu@jpmchase.com

Global Trade

Benjamin Lam

Head of Trade, China,

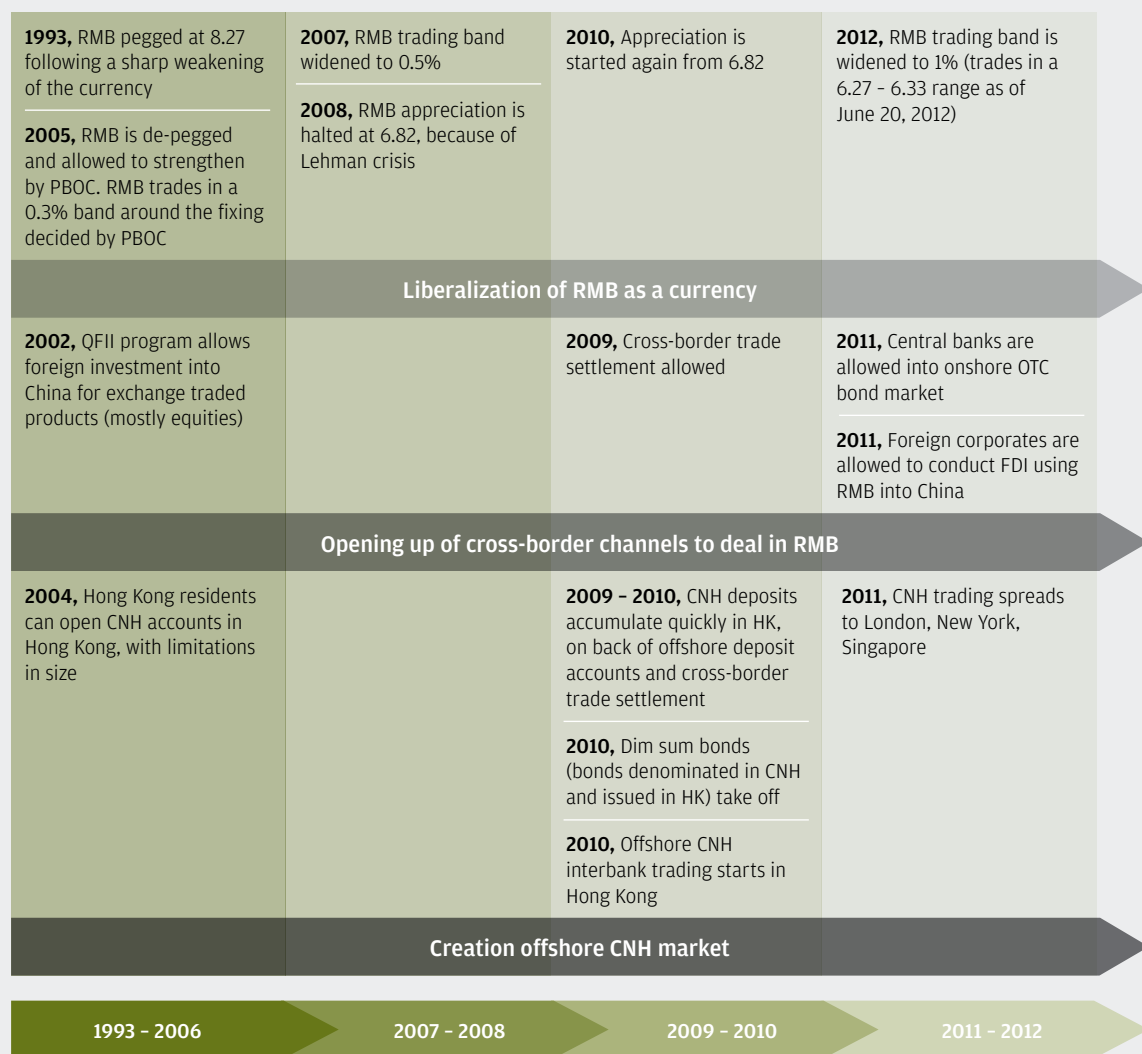
Treasury Services

Tel : +86 21 5200 2675

Email : Benjamin.sm.lam@jpmorgan.com

Appendices

I RMB internationalization milestones 2009 - AUGUST 2012



PBOC - People's Bank of China

FDI - Foreign Direct Investment (for corporates)

QFII - Qualified Foreign Institutional Investor

II Comparison of RMB clearing systems vs. CHIPS and Fedwire

	RMB CHATS	RMB CNAPS	USD FED-WIRE	USD CHIPS
Jurisdiction	Hong Kong	PRC	U.S.	U.S.
Operating Hours (local time)	0830 - 2330	0900 - 1700	2100 - 1830 <i>Wires sent between 9p.m. and 12 midnight are value dated T + 1</i>	2100 - 1700 <i>Wires sent between 9 p.m. and 12 midnight are value dated T + 1</i>
Clearing House	Bank of China (Hong Kong)	Peoples Bank of China (PBOC)	Federal Reserve	The Clearing House
Ownership	Hong Kong Interbank Clearing Limited (partly owned by HKMA and HKAB)	PBOC	Federal Reserve	The Clearing House (privately owned)
Members (August 2012)	168	~100,000	26, 895	50
Settlement	Real Time Gross Settlement	Real Time Gross Settlement	Real Time Gross Settlement	Net Settlement
Payment Formats	SWIFT- based	Proprietary	SWIFT- based	SWIFT- based
Support for Charging options	OUR/ BEN	All transactions are treated on BEN Basis	OUR/ BEN/ SHA	OUR / BEN / SHA
Important Features	CHATS is a multicurrency clearing system offering services in HKD, USD, EUR and RMB	CNAPS Generation 2 will be made available from late 2013 and will be SWIFT based and multi lingual. China International Payment Systems (CIPS) supporting Cross Border RMB Payments and modeled on CHIPS is planned to be launched 2014 - 2015	Federal Reserve settles an average of 495,000 transfers per day with an average value totaling US\$2.5 trillion	CHIPS uses a sophisticated algorithm to match and net payments between participants which settle on a near-real-time basis. The netting engine consolidates all of the pending payments into fewer single net-able transactions

III Straight Through Processing (STP) formatting guide

Following are fields in a SWIFT FIN MT103 and MT 202 messages that are critical to qualify for straight through processing in your remittance instructions.

Following are fields in a SWIFT FIN MT103 and MT 202 messages that are critical to qualify for straight through processing in your remittance instructions.

Field 53 (Sender's Correspondent)

- ✓ Input the A/C number with the financial institution that will debit for the underlying remittance and reimburse the Receiver

Field 57 (Beneficiary Institution)

- ✓ For RMB transfer to Mainland China, use option D and insert the CNAPS code of the beneficiary bank. If a CNAPS code is not available, insert SWIFT BIC code along with branch address on the next line.
- ✓ For RMB transfer to outside of Mainland China, a beneficiary bank SWIFT BIC in option A is sufficient

Field 58 (Beneficiary Institution)

- ✓ Applicable for MT 202 message only
- ✓ Use option A and SWIFT address of the financial institution designated by the ordering institution as the ultimate recipient

Field 59 (Ultimate Beneficiary)

- ✓ Specify beneficiary's account number in line 1 preceded by '/', followed by the account name in line 2, and the address line in lines onwards
- ✓ If the beneficiary maintains an account with a local bank in Hong Kong, the account number should comprise a 3-digit branch code, followed by an account number of up to 10 digits

Field 72 (Bank to Bank Instruction)

- ✓ For RMB transfer to/within Mainland China, please provide payment purpose (i.e. goods, service or capital) for this field
- ✓ For RMB transfer within Hong Kong, please leave this field blank

Note - If a specific STP rule is not mentioned above, please follow the formatting examples listed in the following pages.

MT103 – Initiating a RMB payment to a mainland beneficiary from your J.P. Morgan China account

MT103 Instruction to J.P. Morgan Shanghai:

Sender: Your SWIFT BIC Code

Receiver: CHASCNSH

Status	Tag	Field Name	Remarks
M	20:	Sender's Reference:	Up to 16 alphanumeric characters
M	23B:	Instruction Code:	CRED
M	32A:	Value date, currency code, amount	YYMMDD (value date) CNYXXX
M	50a:	Ordering Customer:	Use Option K to input the A/C number of the ordering customer in the 1st line and the name and address in the 2nd line and onwards
O	53a:	Sender's Correspondent:	Your A/C number with J.P. Morgan to debit
O	57a:	Account With Institution:	Use Option D to input the CNAPS code of the beneficiary bank (preferred). If this is not available, then input the SWIFT BIC of the beneficiary bank in the 1st line, and full name of the beneficiary bank and address in the 2nd line and onwards
M	59a:	Beneficiary Customer:	Input the Account Number of the beneficiary in the 1st line, followed by the beneficiary account name on the next lines onward
O	70:	Remittance Information:	Content may be truncated. SWIFT suggests use of field 72
M	71A:	Details of Charges:	BEN / SHA / OUR
M	72:	Sender to Receiver Information:	<narrative text> //<narrative text> **/PSET/CN/PYTR/GDS/

*M = Mandatory O = Optional

** Please refer to the Offshore CNY guidelines issued by SWIFT on June 29, 2012. Suggested reference to show payment purpose in line with allowable payments under the RMB internationalization (follows the sequence of /PSET/CN/PYTR/)

Payment Nature code	/CAP/	/GDS/	/SRV/	/CAC/
Definition	Capital Account	Goods Trade	Service Trade	Current Account

MT103 – Initiating a RMB payment to a mainland beneficiary from your J.P. Morgan offshore account

MT103 Instruction to J.P. Morgan Hong Kong:

Sender: Your SWIFT BIC Code

Receiver: CHASHKHH

Status*	Tag	Field Name	Remarks
M	20:	Sender's Reference:	Up to16 alphanumeric characters
M	23B:	Instruction Code:	CRED
M	32A:	Value date, currency code, amount	YYMMDD (value date) CNYXXX
M	50a:	Ordering Customer:	Use Option K to input the A/C number of the ordering customer in the 1st line and the name and address in the 2nd line and onwards
O	53a:	Sender's Correspondent:	Your A/C number with J.P. Morgan to debit
O	57a:	Account With Institution:	Use Option D to input the CNAPS code of the beneficiary bank (preferred). If this is not available, then input the SWIFT BIC of the beneficiary bank in the 1st line, and full name of the beneficiary bank and address in the 2nd line and onwards Example: 57:D : / CN302100011243 (<i>Beneficiary Bank CNAPS</i>) Or ECBKCNCBJBM (<i>Beneficiary Bank SWIFT BIC</i>) CHINA EITIC BANK BEIJING WANDA SUB-BRANCH
M	59a:	Beneficiary Customer:	Input the Account Number of the beneficiary, followed by the beneficiary account name on the next lines and onward
O	70:	Remittance Information:	Content may be truncated. SWIFT suggests use of field 72.
M	71A:	Details of Charges:	BEN / SHA / OUR
M	72:	Sender to Sender Information:	<narrative text> //<narrative text> */PSET/HK/PYTR/GDS/

*M = Mandatory O = Optional

* Please refer to the Offshore CNY guidelines issued by SWIFT on June 29, 2012. Suggested reference to show payment purpose in line with allowable payments under the RMB internationalization (follows the sequence of /PSET/HK/PYTR/)

Payment Nature code	/CAP/	/GDS/	/SRV/	/CAC/
Definition	Capital Account	Goods Trade	Service Trade	Current Account

MT103 – Initiating a RMB payment to an offshore beneficiary from your J.P. Morgan offshore account

MT103 Instruction to J.P. Morgan Hong Kong:

Sender: Your SWIFT BIC Code

Receiver: CHASHKHH

Status*	Tag	Field Name	Remarks
M	20:	Sender's Reference:	Up to16 alphanumeric characters
M	23B:	Instruction Code:	CRED
M	32A:	Value date, currency code, amount	YYMMDD (value date) CNYXXX
M	50a:	Ordering Customer:	Use Option K to input the A/C number of the ordering customer in the 1st line and the name and address in the 2nd line and onwards
O	53a:	Sender's Correspondent:	
O	57a:	Account With Institution:	Use Option A to input the SWIFT BIC of the beneficiary bank Example: 57A: SSBEHKHHHKH
M	59a:	Beneficiary Customer:	Input the Account Number of the beneficiary, followed by the beneficiary account name on the next line
O	70:	Remittance Information:	Content may be truncated. Use field 72 for any instructions.
M	71A:	Details of Charges:	BEN / SHA / OUR
O	72:	Sender to Sender Information:	

*M = Mandatory

O = Optional

MT202 – General financial institution transfer – to banks in Hong Kong and countries other than mainland China

Sender: Your SWIFT BIC Code

Receiver: CHASHKHH

Status*	Tag	Field Name	Content/Options
M	20:	Transaction Reference Number	Input your transaction reference information. This field allows for alphanumeric characters up to 16 spaces
M	21:	Related Reference	Input any other transaction related reference (or “NONREF” if no reference available). This field allows for alphanumeric characters up to 16 spaces
O	13C:	Time Indication	
M	32A:	Value date, currency code, amount	
O	52A:	Ordering Institution	Input the account number of the ordering institution (if different from the Sender) in the first line, followed by the name and address in the second line and onwards
O	53A:	Sender’s Correspondent	Your A/C number with J.P. Morgan to debit
O	54A:	Receiver’s Correspondent	
O	56A:	Intermediary	
O	57A:	Account with Institution	Use Option A and input the SWIFT address of the financial institution who will credit the beneficiary institution
M	58A:	Beneficiary Institution	Use Option A and SWIFT address of the financial institution designated by the ordering institution as the ultimate recipient of the funds being transferred. Specify A/C # in line 1 preceded by “/”, followed by SWIFT BIC in the second line.
O	72:	Sender to Receiver Information	

*M = Mandatory

O = Optional

MT202 – General financial institution transfer – to banks in mainland China

Sender: Your SWIFT BIC Code

Receiver: CHASCNSH

Status*	Tag	Field Name	Content/Options
M	20:	Transaction Reference Number	Input your transaction reference information. This field allows for alphanumeric characters up to 16 spaces
M	21:	Related Reference	Input any other transaction related reference (or “NONREF” if no reference available). This field allows for alphanumeric characters up to 16 spaces
O	13C:	Time Indication	
M	32A:	Value date, currency code, amount	
O	52A:	Ordering Institution	Input the account number of the ordering institution (if different from the Sender) in the first line, followed by the name and address in the second line and onwards
O	53A:	Sender’s Correspondent	Your A/C number with J.P. Morgan to debit
O	54A:	Receiver’s Correspondent	
O	56A:	Intermediary	
O	57A:	Account with Institution	Option A: input in the first line the CNAPS code of the financial institution which will credit the beneficiary institution. Enter “/CN” followed by the 12-digit or 14-digit CNAPS bank code. Option D: if a CNAPS code is not available, then input the SWIFT BIC of the institution, full name of the account institution and address
M	58A:	Beneficiary Institution	Use option A and SWIFT address of the financial institution designated by the ordering institution as the ultimate recipient of the funds being transferred. Specify A/C # in line 1 preceded by “/”, followed by SWIFT BIC in the second line.
M	72:	Sender to Receiver Information	<narrative text> //<narrative text> //<narrative text> */PSET/HK/PYTR/GDS/

*M = Mandatory O = Optional

Suggested reference to show payment purpose in line with permitted payments under the RMB internationalization scope (follows the sequence of /PSET/HK/PYTR/)

Payment Nature code	/CAP/	/GDS/	/SRV/	/CAC/
Definition	Capital Account	Goods Trade	Service Trade	Current Account

MT202 – COV General financial institution transfer
– to banks in Hong Kong and places other than mainland China

Sender: Your SWIFT BIC Code

Receiver: CHASHKHH

Mandatory Sequence A – General Information			
Status*	Tag	Field Name	Content/Options
M	20:	Transaction Reference Number	Input your transaction reference information. This field allows for alphanumeric characters up to 16 spaces
M	21:	Related Reference	Input any other transaction related reference (or “NONREF” if no reference available). This field allows for alphanumeric characters up to 16 spaces
O	13C:	Time Indication	
M	32A:	Value date, currency code, amount	
O	52A:	Ordering Institution	Input the account number of the ordering institution (if different from the Sender) in the first line, followed by the name and address in the second line and onwards
O	53A:	Sender’s Correspondent	Your A/C number with J.P. Morgan to debit
O	54A:	Receiver’s Correspondent	
O	56A:	Intermediary	
O	57A:	Account with Institution:	Use Option A and input the SWIFT address of the financial institution who will credit the beneficiary institution
M	58A:	Beneficiary Institution	Use Option A and SWIFT address of the financial institution designated by the ordering institution as the ultimate recipient of the funds being transferred. Specify A/C # in line 1 preceded by “/”, followed by SWIFT BIC in the second line.
O	72:	Sender to Receiver Information	
End of Sequence A			

Mandatory Sequence B - Underlying Customer Credit Transfer Details			
Status*	Tag	Field Name	Content/Options
M	50A:	Ordering Customer	Input the account name of the customer ordering the transaction
O	52A:	Ordering Institution	Input the account number of the ordering institution (if different from the Sender) in the first line, followed by the name and address in the second line and onwards
O	56A:	Intermediary Institution	
O	57A:	Account With Institution	Use Option A and input the SWIFT address of the financial institution who will credit the beneficiary institution
M	59A:	Beneficiary Customer	This field specifies the customer which will be paid
O	70:	Remittance Information	
O	72:	Sender to Receiver Information	
O	33B:	Currency / Instructed Amount	
End of Sequence B			

*M = Mandatory O = Optional

MT202 - COV General financial institution transfer - to banks in mainland China

MT202 COV is not a prevailing format method in China to cover the fund movement related to an underlying customer credit transfer that was sent with a MT103. Please use the MT202 format for your cover payments for China in-bound transactions.

MT202 – Message – Best practice

Example: You maintain a nostro account with J.P. Morgan Hong Kong and instruct to pay RMB 1,000 to ADE bank Hong Kong (SWIFT: ABCDHKHH) for account of ADE Bank Singapore (SWIFT: ABCDSG2A).

Sender: Your SWIFT BIC Code

Receiver: CHASHKHH

Field Tag	Field Name	Remarks
20:	Transaction Reference Number:	123ddgthjj
21:	Related Reference	NONREF (in the case no other reference)
13C:	Time Indication	
32A:	Value date, currency code, amount	120812 CNY1000
52A:	Ordering Institution	
53A:	Sender's Correspondent	
54A:	Receiver's Correspondent	
56A:	Intermediary	
57A:	Account with Institution:	ABCDHKHH (ADE, HK 's SWIFT)
58A:	Beneficiary Institution	/987654321 ABCDSG2A (ADE , SG's SWIFT)
72:	Sender to Receiver Information	

MT202 Message Served as Payment Cover to China- Best Practice

Example: You maintain a nostro account with J.P. Morgan Shanghai and instruct to pay RMB 1,000 to ADE bank for account of Company DEF in China, with Company HIJ as the originator of the payment.

Sender: Your SWIFT BIC Code

Receiver: CHASCNSH

Field Tag	Field Name	Remarks
20:	Transaction Reference Number:	123ddgthjj
21:	Related Reference	NONREF (in the case no other reference)
32A:	Value date, currency code, amount	120812 CNY1000
52D:	Ordering Institution	/12345678 HIJ COMPANY 18 Park Ave, New York, USA
53B:	Sender's Correspondent	
54A:	Receiver's Correspondent	
56A:	Intermediary	
57D:	Account with Institution:	Option A: /CN102466000222 (ADE bank's CNAPS) or Option D: ECBKCNBJSDG (ADE bank's SWIFT) ECBC Binzhou Binyin Sub-branch Shandong China
58D:	Beneficiary Institution	/987654321 DEF COMPANY 85 Binyin Rd., Binzhou, Shandong, China
72:	Sender to Receiver Information	

IV Payments To mainland China beneficiaries

The following provides a guide to managing remittances to Mainland China and how to reduce the chances of a payment being returned. A summary of common payment return scenarios and the underpinning regulatory requirements is as follows -

Return Reason	Requirements
<ul style="list-style-type: none"> • Account eligibility for RMB cross border transactions, where the common errors are: <ul style="list-style-type: none"> - Bene A/C account is not a RMB account - Bene A/C is an individual account - Bene A/C doesn't obtain exporter/importer registration with authorities to be eligible for conducting the underlying trade. - Bene A/C is not registered in the RCPMIS system with its banking provider • Beneficiary name and account do not match, where the common errors are: <ul style="list-style-type: none"> - Incorrect Bene A/C name and/or A/C number provided by Client - Bene A/C is registered in Chinese only in RCPMIS, but Client provides English name for processing 	<ul style="list-style-type: none"> • Beneficiary account must be a RMB account to receive RMB payments. • Beneficiary account must NOT be an individual account to receive cross border RMB payments except for remittances originated from Hong Kong and Macau on a same name basis. • Beneficiary account name must be registered in PBOC's information system (RCPMIS) through the beneficiary's banking provider. Beneficiary account name and account number provided in payment instructions must be exactly the same as those registered in RCPMIS.
<ul style="list-style-type: none"> • Requested returns from Beneficiary <ul style="list-style-type: none"> - Beneficiary requests to return funds (probably) due to <ol style="list-style-type: none"> 1. Ineligibility to conduct the underlying trade; 2. Inability to provide documentation for fund release • Incomplete or incorrect documentation <ul style="list-style-type: none"> - Beneficiary couldn't provide trade documentation (e.g. invoice, and other supporting documents) for fund release 	<ul style="list-style-type: none"> • Beneficiaries must obtain business licenses (e.g. import/export licenses) for conducting the underlying transactions, should they be merchandise trades, service trades or capital payments. • Beneficiaries must provide supporting documentation associated and consistent with the underlying payments. Beneficiary account name, transaction amount and payment nature (among other things) shall be consistent with those stated in contracts/invoices/application filings to avoid payment rejection. • Mainland banks are responsible for transaction validation and will seek appropriate supporting documents prior to crediting to the account.
<ul style="list-style-type: none"> • Incorrect correspondence routing <ul style="list-style-type: none"> - Incorrect routing to the sub-branch of the intended beneficiary bank, due to a lack of correct CNAPS codes or missing beneficiary bank branch details 	<ul style="list-style-type: none"> • Remitters are required to provide CNAPS code of the beneficiary bank. If a CNAPS code is not available, remitters must provide SWIFT BIC with detailed branch address.

Pre-checks to reduce payment return

Payment returns can be costly as each payment will have deductions made from proceeds. We recommend the following pre-checks are made prior to initiating a payment to the Mainland Chinese beneficiary

- **Confirm with the Mainland beneficiary on its eligibility to receive payments.**
 - Ensure that your Mainland beneficiary has the appropriate authority approvals (e.g. import/export licenses) for receiving the underlying transactions (trade or capital).
(For capital remittance, refer to FDI Guide for approval guidelines.)
 - Ensure that your Mainland beneficiary is registered with its banking provider in the RCPMIS system.
 - Ensure that the Mainland beneficiary is not an individual.
- **Make sure the beneficiary's account name and account number are correct and matched with the records in RCPMIS.**
 - Please request the beneficiary's English name to be registered in RCPMIS and the same is provided for settlement.
 - Please note that character limitation in the Account Name and Address field is 140 spaces.
- **Confirm Mainland beneficiary's bank code and branch details to avoid returns.**
 - Collect a CNAPS code for the beneficiary account, or
 - Collect detailed beneficiary bank address with branch details. For Example:

Field 57: Beneficiary bank SWIFT: ECBKCNBJBJM ❶

Bank branch address: ECBC Beijing Municipal Branch, Beijing, PRC ❷

Example:

Sender: Your SWIFT BIC Code **Receiver:** CHASHKHH

Field Tag	Field Name	Remarks
20:	Sender's Reference	XXYY12345
23B:	Instruction Code:	CRED
32A:	Value date, currency code, amount	YYMMDD (value date) CNYXXX
50a:	Ordering Customers:	/9876543212 Company XYZ 123 Park Ave, New York, USA
53a:	Sender's Correspondent:	/9876543219
57a:	Account with Institution:	(Use Option D) /CN102100099996 (Bene bank CNAPS CODE) or ECBKCNBJBJM ❶ (Bene bank SWIFT BIC CODE) ECBC Beijing Municipal Branch, Beijing, PRC ❷
59a:	Beneficiary Customer:	/123456789 Company ABC 20/F Building A, 100 Street B, Beijing
70:	Remittance Information:	
71A:	Details of Charges:	BEN
72:	Sender to Sender Information	PAYMENT FOR SERVICES RENDERED /PSET/HK/PYTR/SRV/

In addition, we have prepared the following as an example on how you may wish to communicate the change with your vendors.

Dear Sir/Madam,

Payment from <ENTITY NAME>

<COMPANY NAME> will be initiating a new payment program which will affect the way it trades with its existing and future suppliers. Please note that this will not change your current invoicing process.

The purpose of this letter is to inform you of <ENTITY NAME>'s plans, effective 1st MONTH 2xxx and to ensure that the information we hold on your company is up-to-date, allowing payments to be sent to the correct bank account by the appropriate electronic means. I should be grateful therefore if you could complete and return the attached form to the above address no later than Monday Nth MONTH 2xxx. A prepaid envelope is enclosed for this purpose.

To ensure that our payments are successfully made to you please take the following action:

- Provide your banking provider your company's registered name in both English and Chinese
- Notify your banking provider of the impending receipt of CNY into your provided bank account effective from 1st June 2xxx
- Complete the attached Supplier Information form as per details provided to your banking provider
- Inform <ENTITY NAME> at following details of any questions or concerns

< NAME>
< ADDRESS>
<EMAIL ADDRESS>
<TELEPHONE NUMBER>

致函 <MAINLAND SUPPLIER COMPANY NAME>:

此函目的为通知贵公司我方将重新确认我方供应商的人民币汇款资料, 以利日后支付汇款程序. 我方需贵公司提供

1. 贵公司在结算银行登记的中文及英文公司名称
2. 填写附件表格所需资料 (见附件)
3. 通知贵公司结算银行我方将依提供的帐户开始汇款

除上述汇款资料外, 发票及其他货款收发程序将不会改变

恳请贵公司於 XX年XX月XX日之前提供所需资料, 并用回邮信封(或电邮)寄回以下地址

如有问题, 请来电(函)询问

< NAME >
< ADDRESS >
< EMAIL ADDRESS >
< TELEPHONE NUMBER >

Supplier information form

供应商收付款资料

1. COMPANY NAME (ENGLISH) 公司名称 (英文)	
2. COMPANY NAME (CHINESE) 公司名称 (中文)	
3. ENGLISH NAME REGISTERED IN RCPMIS 公司於RCPMIS登录的英文名称 Requirement for RMB to be received and reported 此要求为收付人民币法规相关规定	
BANK ACCOUNT DETAILS 结算银行帐户资料	
NAME OF ACCOUNT HOLDER (ENGLISH) 结算帐户存款人名称 (英文)	Indicate if different from (1) or if N/A 如与(1)公司英文名称相异, 需加注
NAME OF ACCOUNT HOLDER (CHINESE) 结算帐户存款人名称 (中文)	Indicate if different from (2), or if N/A 如与(2)公司中文名称相异, 需加注
ACCOUNT NUMBER 结算帐户号	
BANK NAME 结算银行名称	
SWIFT CODE 结算银行SWIFT码	
BANK BRANCH NAME AND ADDRESS 开户行分行名称及地址	
CNAPS CODE (if known) 开户行CNAPS码 (12位数码) Refers to 12 digit bank identifier established by People's Bank of China and used in fund transfers	

Examples of returned payments and recommended next steps

To clarify how to rectify any returned payments, the following are two examples illustrating common errors that we have seen.

Example 1: Bank ADE receives a request from Company DEF to make a CNY 1,000 payment to a Mainland Chinese supplier, Company XYZ, which holds a settlement account with Bank ECBC. Upon receiving the payment, Bank ECBC could not match the provided account name with Company XYZ’s account name in the RCPMIS database.

MT103 Instruction as sent

Sender: Bank ADE’s SWIFT BIC Code **Receiver:** CHASHKHH

Field Tag	Field Name	Remarks
20:	Sender’s Reference	XXYY1234
23B:	Instruction Code:	CRED
32A:	Value date, currency code, amount	120812 CNY1000
50a:	Ordering Customers:	/1234567891 Company DEF 123 Park Ave, New York, USA
53a:	Sender’s Correspondent:	/9876543219
57a:	Account with Institution:	ECBKCNBJBJM ECBC Beijing Municipal Branch, Beijing, PRC
59a:	Beneficiary Customer:	/123456789 <u>Company XYZ</u> (Incorrect field) 20/F Building A, 100 Street B, Beijing
70:	Remittance Information:	
71A:	Details of Charges:	BEN
72:	Sender to Sender Information	PAYMENT FOR GOODS TRADE RENDERED /PSET/HK/PYTR/GDS/

Status

1. J.P. Morgan sends Bank ADE a return message containing the following

Re: Account info incorrect/ doesn’t match.

We regret to inform you that the payment order was rejected due to unmatched bene account name and number. Pls confirm account info and make sure the account name is exactly the same as the one registered. If the registered account name is in Chinese only, pls contact your beneficiary to register the English name.

As the account info is incorrect/doesn’t match, we treat this instruction as null and void. We will not take action on this instruction.

Regards.
HK Payment Ops
2. The payment is deducted by the receiving Mainland Chinese bank for the amount of CNY 40. J.P. Morgan credits CNY 960 to Bank ADE’s nostro account no later than the next business day.

Recommendation for next steps

Company DEF should contact Company XYZ to obtain the correct account name as registered in the RCPMIS database, and/or request for Company XYZ to register an English name. Please ensure that Company XYZ confirms changes are made prior to issuing new payment instruction.

Example 2:

Bank ADE receives a request from Company DEF to make a CNY 1,000 payment to a Mainland Company XYZ. The beneficiary bank could not locate the intended sub-branch based on the SWIFT BIC code provided in the payment instruction. As a result, the payment was rejected.

MT103 Instruction as sent

Sender: Bank ADE’s SWIFT BIC Code Receiver: CHASHKHH

Field Tag	Field Name	Remarks
20:	Sender’s Reference	XXYY1234
23B:	Instruction Code:	CRED
32A:	Value date, currency code, amount	120812 CNY1000
50a:	Ordering Customers:	/2345612345 Company DEF 123 Park Ave, New York, USA
53a:	Sender’s Correspondent:	/9876543219
57a:	Account with Institution:	ECBKCNBJBJM (Incomplete details)
59a:	Beneficiary Customer:	/123456789 Company XYZ 20/F Building A, 100 Street B, Beijing
70:	Remittance Information:	
71A:	Details of Charges:	BEN
72:	Sender to Sender Information	PAYMENT FOR GOODS TRADE RENDERED /PSET/HK/PYTR/GDS/

Status

1. J.P. Morgan sends Bank ADE a return message containing the following:

Re: Failed to route to the target sub-branch.
We regret to inform you that the payment order was rejected because the intended sub-branch under the provided SWIFT BIC code couldn’t be located.

Pls provide a correct CNAPS code for the intended sub-branch, or provide detailed bene bank address. We treat this instruction as null and void. Pls contact beneficiary to settle the case.

Regards,
HK Payment Ops.

2. The payment was deducted by the receiving Mainland Chinese bank for the amount of CNY 40, thus CNY 960 was credited to Bank ADE’s nostro account no later than the next business day.
- Recommendation for next steps

Company DEF to contact Company XYZ to provide the detailed branch address to identify the intended sub-branch. Payment should be formatted as follows:

Field 57: Account with Institution

ECBKCNBJBJM

ECBC Beijing Municipal Branch,

Beijing, PRC

V RMB Foreign Direct Investment (FDI) and shareholder loan (for corporations)

Regulatory background

To promote the development of RMB internationalization, the People's Bank of China (PBOC) and Ministry of Commerce (MOFCOM) have released guidelines on RMB cross border capital flows in the forms of Foreign Direct Investment (FDI) and Shareholder Loan.

Foreign investors can establish Foreign Invested Enterprise (FIE) in China using offshore RMB via FDI.

Once a FIE is established and funded, the foreign invested company seeking additional capital can borrow from overseas via Shareholder Loan.

FIE can take forms of Joint Ventures (JV) or Wholly Foreign Owned Enterprise (WFOE).

Both FDI and Shareholder Loan are available in FCY and RMB. The guideline hereinafter emphasizes on RMB denominated applications.

Companies eligible for FDI

- Corporations globally that intend to inject capital into mainland China.
- FIE seeking loans from overseas entities/financial institutions.

Regulatory body approving applications for FDI

- MOFCOM – Ministry of Commerce of the People's Republic of China
中华人民共和国商务部

FDI approval guidelines

- All FDI applications shall be submitted to MOFCOM.
- The FDI scheme applies additional approval for industries, such as:
 - Financial-related industries involved in financial guarantee, financial leasing, microloans or auctions;
 - Foreign invested investment companies, venture capital or private equity investment enterprises;
 - State-regulated industries such as cement, steel, iron, electrolysed aluminium, and shipbuilding.

The guidelines require that these funds must be legally sourced from the following:

- Funds obtained from account settlements in cross-border trade
- Funds obtained through RMB repatriated from China as dividends, share transfer, capital reduction, liquidation and early recovery of investment gains
- Issuance of RMB bonds or stocks;
- Existing cash reserves may be considered as valid source of funds (as approved by MOFCOM)

Offshore account requirement:

A designated offshore RMB account is not mandatory. The investing company can either fund the FDI with an existing account (FCY or RMB) or set up a new RMB account offshore. This should be decided upfront as it determines source of funding for appropriation.

Funds in the mainland must be used for:

- Capital investment:
 - Purchasing companies
 - Setting up new companies
 - Transferring stakes

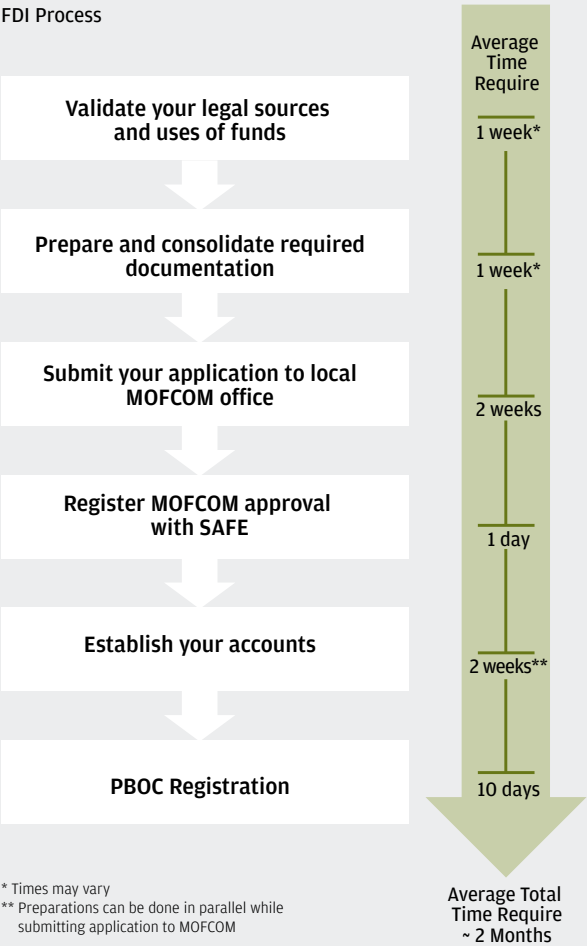
The funds sourced for FDI cannot be used for:

- Investment in securities and financial derivatives
- Entrustment loans (i.e. where a bank acts as an intermediary between a lender and a borrower). Foreign investors are required to ensure that the funds will not be used for prohibited purposes
- Wealth management products
- Real estate investment
- Domestic re-investment (except for FIEs with investing as core businesses, such as securities firms and private equities, etc.)

FDI approval process

Refer to the chart below for the required steps to bring capital into China:

FDI Process



Step 1: Documentation requirements

The following documents are required for approval by MOFCOM:

- Proof of source of funds
- Written application letter detailing the investment purpose
- Application form for cross border FDI
- Other documents related to the underlying investment will also be required

Note: Approval requirements may vary at the provincial level. Confirmation with local MOFCOM is recommended.

Step 2: Submit application to local MOFCOM office

FDI application shall be submitted to the local MOFCOM office, where the invested enterprise is incorporated. Application submission can be done by post or in person.

Step 3: Register approved FDI with SAFE

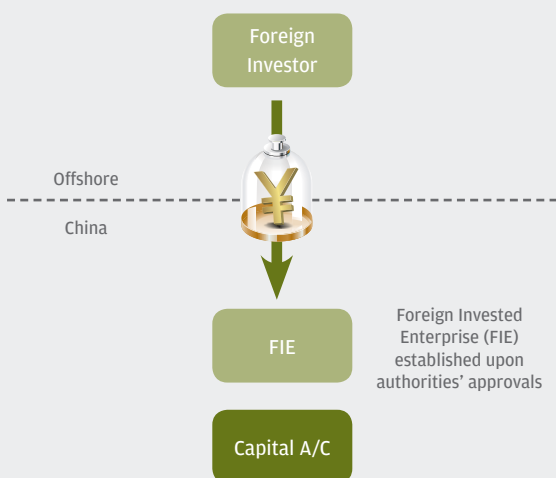
After receiving approval from MOFCOM for the RMB FDI, the onshore entity must register the approval and investment with the local SAFE authorities.

The registration updates the SAFE FDI information system, and is accessed by all Mainland banks with respect to incoming FDI flows.

Step 4: FIE to establish required bank accounts Onshore in China

Foreign Invested Enterprise (FIE) receiving capital remittance in RMB from overseas is required to open capital account onshore. To shorten the overall process, you should start engaging your account opening bank simultaneously when you are seeking the MOFCOM approval.

Please refer to the chart below:



RMB capital account shall be opened in the location where the FIE is incorporated.

Once approval from MOFCOM is obtained, the approval letter can be presented along with other relevant documentation (e.g. the entity's business license) to the receiving Mainland bank and Hong Kong remitting bank (if applicable).

It is also mandatory to register the capital account in PBOC's information system (called RCPMIS) with the receiving Mainland bank.

Step 5: Register with PBOC

Within 10 working days after obtaining business license, submit the following documents to register with local PBOC:

Required documents:

- MOFCOM approval certificate
- Business scope stated on the Special Approval Certificate for Foreign Invested Enterprise
- Business License
- Enterprise Identification card

Step 6: Using the funds

Fund usage must be within the scope of the approved FDI.

RMB shareholder loan (Foreign Debt)

Background

RMB shareholder loans are loans FIEs borrow from overseas entities, should they be overseas parent companies, affiliates or financial institutions.

PBOC regulations stipulate that RMB shareholder loan should be accounted for the company's total foreign debt. The cumulative amount must stay within the company's borrowing gap, which is the difference between the approved total investment amount and the subscribed capital (equity and loan).

Companies eligible for RMB shareholder loan

- FIE can raise RMB Shareholder Loan only after the registered capital is paid as scheduled.
- FIE seeking to borrow from overseas, will be the applicant for RMB shareholder loan.

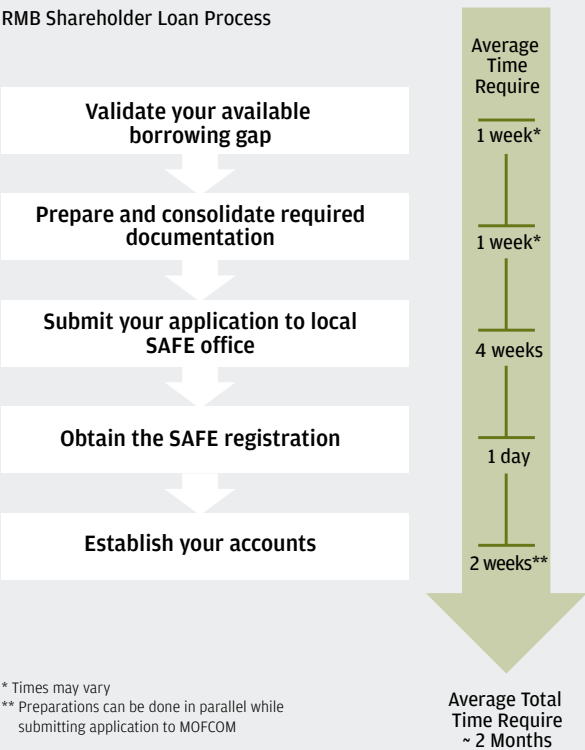
Regulatory body for RMB shareholder loan

- SAFE - State Administration of Foreign Exchange
国家外汇管理局

Note: Local practices may vary at the provincial/municipal level in terms of whether registration (foreign debt registration) from SAFE is required before account opening. Confirmation with local SAFE office is recommended.

RMB shareholder loan registration process

Refer to the chart below for the required steps to bring RMB shareholder loan into China:



Step 1: Documentation requirements

Within 15 calendar days after the loan agreement is signed between the overseas entity (the lender) and the onshore entity (the borrower), the onshore borrower needs to submit the following documents to SAFE for registration:

- Written application (free format) stating the amount, tenor, purpose and plan of loan drawdown, and repayment terms
- Statement of the borrowing FIE's current foreign debt status
- Filled foreign debt registration form (SAFE standard form)
- Certified copy of borrower's business license and special approval Certificate for Foreign Invested Enterprise to operate in China

- The latest audit report, last year’s foreign currency payments and collection report, and the latest financial reports
- Original copy of the loan agreement (if the document is in English, a translated Chinese version and chopped by the borrower is required)
- Original and certified copies of foreign exchange registration certificate issued by SAFE
- Print screen of the corporate registration information details and annual foreign exchange corporate review details in the SAFE FDI information system

Note: Additional documents for submission to SAFE may be required as local SAFE practices may vary.

FIE shall register the issued shareholder loan with the local SAFE office, where the FIE is incorporated.

Application submission can be done by post or in person.

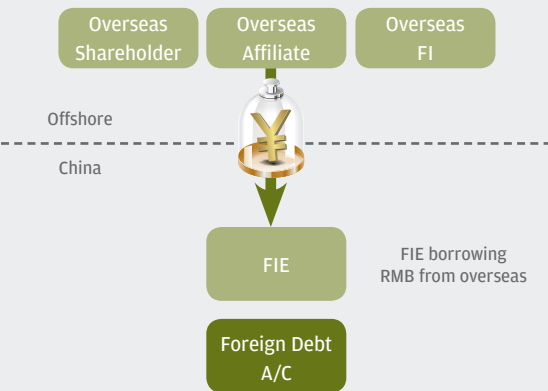
Step 2: FIE to establish required bank accounts onshore in China

RMB foreign debt account is required for receiving the approved RMB loan from overseas.

Account can be opened in locations different from FIE’s incorporated location, provided that the FIE reports to the local PBOC branch after account opening. Exceptions on account domicile are subject to local PBOC approval.

To shorten the overall process, you should start engaging your account opening bank simultaneously when you are seeking the SAFE registration.

Please refer to the chart below:



Once SAFE registration is completed, the chopped foreign debt registration form should be presented along with other relevant documentation (e.g. the entity’s business license) to the receiving Mainland bank and Hong Kong remitting bank (if applicable).

Step 3: Drawdown registration with SAFE

After the loan is received in the designated foreign debt account, in 5 working days the onshore borrower shall bring the bank credit advice to SAFE to confirm the fund has been received.

Note: Local practices may vary at the provincial/municipal level in terms of whether the drawdown registration with SAFE is required. Confirmation with local SAFE office is recommended.

Step 4: Using the funds

Fund usage must be within the scope stated in the loan agreement.

Funds in FIE’s RMB foreign debt account cannot be used for:

- Investment in securities and financial derivatives
- Entrustment loans
- Wealth management products
- Real estate investment
- Domestic re-investment (except for FIEs with investing as core businesses, such as securities firms and private equities, etc.)

Appendix A: FDI and shareholder loan reference table

	FCY Foreign Debt	RMB Shareholder Loan	FCY FDI	RMB FDI
Approval/Registration Authorities	• SAFE	• SAFE*	• MOFCOM / SAFE	• MOFCOM / PBOC
Approval Time (Reference only)	• 20 working days	• 20 working days	• 20 working days	• 20 working days
Application Criteria	• Loan amount is within the onshore company's "borrowing gap**"	• Loan amount is within the onshore company's "borrowing gap**"	• Subject to FDI policy	• Subject to FDI policy
Accounts Required	• FCY foreign debt account	• RMB foreign debt account	• FCY capital account	• RMB capital account
Use of fund	<ul style="list-style-type: none"> • Fund usages should be under the approved scope. Document checking performed by the banking provider is required. • SAFE approval required for conversion from FCY to RMB. 	• No additional approval required. Document checking performed by the banking provider is required.	• Fund usages should be under the approved scope. Document checking performed by the banking provider is required.	• No additional approval required. Document checking performed by the banking provider is required.
Other restrictions	• Loan must be repaid by maturity	• Loan must be repaid by maturity	• No other restrictions	• No other restrictions

* Approval requirement is subject to local practices. Confirmation with local SAFE is recommended.

** Total foreign debt should not exceed the difference between the approved investment amount and subscribed capital.

VI Glossary

- CIPS (China International Payment System) – a new payment system China plans to launch in 2013/2014. CIPS will be SWIFT based and modeled after the CHIPS in the United States of America and integration with CNAPS which will be modeled after Fedwire.
- CHATS (Clearing House Automated Transfer System) – a Real Time Gross Settlement (RTGS) system for the transfer of funds in Hong Kong.
- CNH – represents the currency code and exchange rate of RMB that trades offshore in Hong Kong
- CNY – represents the currency code and exchange rate of RMB that trades onshore in China
- CNAPS (China National Advanced Payment System) – a Central Bank operated RMB clearing system providing both real-time gross settlement and net settlement.
- CSDCC (China Securities Depository and Clearing Corporation Limited) – the only domestic securities depository and clearing agency
- CSRC (China Securities Regulatory Commission) – the main securities regulator
- FDI (Foreign Direct Investment) – a scheme that allows overseas entities to invest in China with RMB raised onshore and offshore
- HK SFC (Hong Kong Securities and Futures Commission) – an independent non-governmental statutory body, responsible for regulating the securities and futures markets in Hong Kong
- HKMA (Hong Kong Monetary Authority) – Hong Kong's central bank, founded in 1993 via the consolidation of the Office of the Exchange Fund and the Office of the Commissioner of Banking; HKMA reports directly to the Financial Secretary
- LGB – China Local Government Bond
- MOFCOM (Ministry of Commerce of the People's Republic of China) – an executive agency of the State Council, responsible for formulating policy on foreign trade, export and import regulations, foreign direct investments, consumer protection, market competition and negotiating bilateral and multilateral trade agreements
- NDRC (China National Development and Reform Commission) – a macroeconomic management agency with broad administrative and planning control over the Chinese economy.
- PBOC (People's Bank of China) – the central bank of the People's Republic of China, mandated to control monetary policy and regulate financial institutions in mainland China
- PRC – People's Republic of China
- RCPMIS – an information system established by People's Bank of China to collect cross border RMB transactions information. Banks in China providing RMB remittance services are required to connect with and report to the database
- RMB – the official currency of the People's Republic of China, issued by the People's Bank of China
- Real time Gross Settlement (RTGS) systems. RTGS systems provide the quickest availability of funds because they provide immediate “real-time” and “irrevocable” funds
- SAFE (State Administration of Foreign Exchange of the People's Republic of China) – an administrative agency that drafts rules and regulations governing foreign exchange market activities and manages the state foreign exchange reserves
- SHIBOR (Shanghai Inter-bank Offered Rate) – is a daily reference rate based on the interest rates at which banks offer to lend unsecured funds to other banks in the Shanghai wholesale (or “interbank”) money market

Useful resources

- JPMorgan Bloomberg Page -
[JPCN <GO>](#)
- Bloomberg Page -
[CNFI <GO>](#)
- Fixing Pages -
Reuters - PBOCA, SAEC
Bloomberg - NDFF
- The People's Bank of China -
www.pbc.gov.cn
- SAFE -
www.safe.gov.cn
- Ministry of Commerce -
www.mofcom.gov.cn
- China Banking Regulatory Commission -
www.cbrc.gov.cn
- Hong Kong Monetary Authority -
www.info.gov.hk/hkma



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